charges, whether for punitive or aggressive reasons, or the charges of more important wars.*

(II) MAINTENANCE OF PEACE AND ORDER :—This includes expenditure on Police, Courts of Justice, and Jails; (b) General Administration; (c) Collection of Revenue, and (d) Political charges † including expense of Legislative Machinery, Foreign representation by Consuls or Ambassadors, or Political Agents as they are called in India, and treaty obligations to other States; (e) Pensions, &c. comprising territorial and political allowances, Furlough and Absentee charges, superannuation charges or pensions of the civil and military servants; and (f) Miscellaneous charges of a like description.‡

(III). NATIONAL DEVELOPMENT :—This third group may be subdivided into Expenditure for Moral and for Material or Economic Development. Under the former will be comprised expenditure on Education, including Scientific and Miscellaneous departments, Medical and Sanitation charges and Ecclesiastical; under the latter we include Railways, Irrigation and other Public Work, Agriculture and Famine Relief charges, Ports, Pilotage, Post and Telegraphs, Mint, and Interest on Public Debt.§

Before concluding these preliminary remarks, it is necessary to observe that it would contribute immensely to the proper understanding of Indian Finance if some such classification is adopted in the annual statements. I am aware, indeed, that to upset the present form prescribed and standardised by usage would involve considerable inconvenience; but the inconvenience is not by itself a reason for the rejection of a change which in itself tends to improve. Under the present scheme, one is apt to have a false conception of the functions and duties of the State accepted by the Government of India. The inclusion of education, Medical and Sanitation charges under the head of departmental salaries and expenses or civil administration charges would induce a radically wrong impression regarding the duty of the State in these respects as understood by the Government of India. It may be, of course, that the Government are not unaware of such a plausible misapprehension. It may be that their policy in these departments is yet by no means so clear and defined as to enable them to commit themselves by a fundamentally

*The expenditure on Police ought at first sight to be included under the first group, as it also represents the theory of force as the basis of the State. It has nevertheless to be distinguished from military expenditure, as the police expenditure is incurred to restrain the elements of disorder *within* the community, while the military expenditure is incurred to guard against danger from *without*.

† Expenditure under the head 'Political' was discussed by the Welby Commission under the head of 'Defence' along with the Military Expenditure. We have given reasons elsewhere for not adopting that division.

‡ In the Indian system of accounts the Army Estimates include the charges for Military Pensions whether payable to Indian soldiers or that portion of the British Army serving for a period in India. The last item is actually calculated and paid in a lump sum to the War office.

§ The item "Interest on Debt" would be difficult to classify. The debt has been incurred as much for military as for productive purposes. The total interest must accordingly be divided into the two component parts. As that would, however, confuse discussion, we have included the whole item under the group of development expenditure, and here we content ourselves by pointing out the anomaly. The whole subject is discussed by itself in a separate section. The stores charges must, strictly speaking, be split up according to the department for which the stores are ordered.

SIXTY YEARS OF INDIAN FINANCE

II.—Analysis of the Home Charges

Leaving out of account the minor groups or items, the total estimated home charges of £30 million in 1924–25 may be considered under the following divisions :—

(In million sterling)

					£
1.	Interest	8·116	4.	Miscellaneous Civil charges	2·244
2.	Army charges ...	10·096	5.	Civil Administration ...	·521
3.	Railway revenue A/c	8·609	6.	Miscellaneous	·506

Of these items interest on debt may be split up, as in the preceding table, into that on the ordinary unproductive debt, and that on productive debt. Before the war, the ordinary charge was 40 per cent. of the total charge, but owing to the increased charges on the large war loans, that item has grown considerably in the last five years. It will be more fully treated of in another chapter.

We have already discussed the military charges incurred in England. The railway charges consist of (*a*) interest on capital borrowed for State railways, (*b*) annuities by which some lines are being acquired by the Government, and (*c*) the profits of the guaranteed companies. The railway and irrigation expenditure is dealt with in the section dealing with revenues.

Payments in connection with the civil departments in India include postal and telegraphic subsidies, allowances to Indian Civil Service candidates, examination fees, maintenance of lunatics, etc. The charges of the India Office, considered by Indian public opinion to be more fitly chargeable on the British exchequer, have already been considered under general administration, as also the pensions and furlough, etc. charges.

All these home charges are, since 1899, in normal circumstances, met from the proceeds of the Council Bills sold in England on India. As the exports of India are always in excess of her imports, our foreign debtors must remit to India the net value of this excess. To do so, they buy bills on India offered by the Secretary of State for sale, and the proceeds are applied for the payment of the home charges. The buyers send the bills to India where they are cashed at the Indian Government Treasuries. As regards the Indian exchequer, the result is, therefore, the same as if the amount had been directly remitted to England. Before the Indian mints were closed to the free coinage of silver, the price which the Secretary of State obtained for his bills, was determined by the gold value of silver bullion. If bills were offered at a rate less than the market rate of silver, importers could adopt the alternative of purchasing bullion and sending it to India. Until 1871–1872 the gold value of the rupee had, except in one year, always exceeded 22*d*. The increasing production of silver, and its reduced employment for monetary purposes due to the currency policy of Germany and other countries, led from 1873 to fluctuations with a constant downward tendency, until in 1895 it reached the lowest price of little more than 13*d*.=Re. 1. As the price of silver fell, the Secretary of State obtained worse and worse terms

the clerical staff had increased by some 28%, the technical staff had increased by 33%, besides the increases in the pay and allowances in the meanwhile. The war and its consequent inflation of staff everywhere, as well as its incidental laxity of control, explain in a large measure this increase; and though Government tried to conceal or counteract it by adding to the railway rates and fares by *ad hoc* surcharges in 1921, the estimates of increased yield from increased rates, &c., did not keep pace, and so the railway deficit went on growing and accumulating. Proper economies in the operation of railways, however, were, strictly speaking, a matter of efficient control and suitable organisation; and the suggestion of the Acworth Committee, therefore, gained further support, from this purely financial reason, that the finances of the railways be separated entirely from those of the country at large. The old guaranteed railway companies having ceased to be of any importance, the proposal acquired additional significance; for as each guaranteed company's term of contract expired, the company's assets and liabilities were taken over by the State, and its accounts came under the State Railways Accounts, even though the railway system in such case was re-leased to the company for management on behalf of the state. The question of the relative merits of company *vs.* state management of the railways in India was for a very long period one of the most widely discussed matters in the realm of public finance in India. The Acworth Committee of 1920-21 was particularly asked to advise on this very knotty problem, complicated as it was by the fact that the actual management of these companies was by Boards of Directors located outside India. The Committee was, however, divided equally on the general question, though they were unanimous in recommending that the then existing system of management by Boards of Directors in London should not be extended beyond the terms of the then existing contracts. On the termination of the contracts with the East India Railway Company on the 31st December 1924, and with the Great Indian Peninsula Railway Company on the 30th June 1925, the question became one of practical politics; and the Legislative Assembly carried a resolution against the Government recommending that the East India and the Great Indian Penisula Railway systems should be placed under the direct management of the state on the termination of the existing contracts. The Government of India, however, were not quite fully convinced of the wisdom and profitability of direct state management; and, while accepting the necessity of taking over direct management of the two systems whose contracts were then coming to an end, they declared their intention to continue their efforts to devise a satisfactory form of company domiciled in India to take these systems over eventually on a basis of real company management. These two systems, however, have been definitely brought now under direct state management; and the opinion may be ventured that the re-organisation of the railway control machinery of the Government of India, as well as the other changes in the financial organisation, have gone so far and so deep at the root of the problem, that this expression of Government opinion may safely be taken to be their last

SIXTY YEARS
OF
INDIAN FINANCE

BY
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directors, with indifference to public interests and insolence to the travelling public. Adopting such an attitude as regards the existing railways, we would, of course, support the suggestion that all further construction should be carried out directly by state agency without an intermediary to create a powerful vested interest which might conceivably be difficult to deal with at a later stage.

On the whole, then, we must pronounce in favour of a policy of railway nationalisation in the sense in which it is applicable to this country. The railway revenue in the future, if properly handled, would not only afford a surplus sufficient to construct the additions absolutely necessary, but also to provide enough margin to undertake the necessary irrigation or navigation canals in aid of, or as a relief to, the railways. This is altogether besides the indirect advantage of the railways to-day in providing industrial technical training and experience, in assisting the trade and industries of the country, in developing parts which are yet undeveloped. It would be a considerable relief to the public exchequer in the construction of railways, if the policy of encouraging local bodies to build their own local railways on a less ambitious scale out of their own resources on their own credit is developed considerably more than it is at present.* In the grave problems of social reform, which have already made their appearance in crowded cities like Bombay or Calcutta, where national interests demand imperatively that congestion should be remedied at the earliest opportunity, the construction of light railways or tramways would prove an indispensable adjunct of the reform movement. But it would be an unjustifiable waste of public resources, if such construction is handed over to private companies uncontrolled by the municipal or district authorities, and would involve a deplorable, because avoidable, inequality in the distribution of wealth, which sooner or later would bring dire consequences in its wake.† Out of the possible present requirements of 50 crores‡ for additional necessary construction, it is not an exaggeration to say that 12½ crores to 15 crores at least can be provided from local funds over a series of 10 years, if only the local authorities were properly to develop their local power of taxation and borrowing, and the exploitation for their own benefits of their local resources. Besides, under such an arrangement the local bodies will judge for themselves, and would be obviously more competent to make a suitable decision as between the possible alternative means of communica-

* But see the latest resolution of the Government of India, dated February 19, 1925, concerning the financing of branch or feeder lines.

† Cp. on this question of civic transportation, the work of the present writer and Miss G. J. Bahadurji, called the "*Constitution, Functions and Finance of Indian Municipalities*" Part III.

‡ I have left unaltered this figure of 50 crores as in the first edition, though in the interval the first Legislative Assembly had voted a five years' non-lapsing grant of 150 crores. The remarks of the Indian Retrenchment Committee regarding the layout of these monies provide sufficient justification for the opinion that not all monies invested in railway construction, extension or improvement, of a capital category, are well spent, and that, therefore, the monies spent between 1920 and 1923 really provide no index for judging the real need.

OTHER WORKS BY THE SAME AUTHOR

INDIAN CURRENCY, EXCHANGE AND BANKING.

TRADE, TARIFFS AND TRANSPORT IN INDIA.

WEALTH AND TAXABLE CAPACITY OF INDIA (in collaboration with K. J. Khambatta)

CONSTITUTIONS, FUNCTIONS AND FINANCE OF INDIAN MUNICIPALITIES (in collaboration with Miss. G. J. Bahadurji)

GOVERNANCE OF INDIA, (2nd Edn. in collaboration with Miss G. J. Bahadurji)

PAMPHLETS ON:

INDIAN CURRENCY REFORM.

MEMORANDUM ON INDIAN EXPENDITURE.

PROTECTION TO INDIAN IRON & STEEL INDUSTRY.

TO

MY FRIEND

Prof. S. RADHAKRISHNAN, M. A.

Preface to the First Edition

Though planned as early as 1911, when the author was in England and had every facility for reference to official records, the work was not definitely undertaken in its present form till the commencement of 1918 during the term of the writer's engagement with the Mysore University. The exigencies of regular lecturing work necessarily impeded the progress of the work, which was rendered all the more difficult owing to the absence of any considerable library facilities. The collection of material and compilation of figures had, therefore, to be carried on during spells of vacation passed in larger cities with better facilities for reference and research. It was, therefore, nearly two years after the work had first been taken in hand that it was finally completed, and another year before it could be sent to the press.

This brief genesis will serve to explain the defects of compilation which, the author is conscious, still mar the value of the work to a very considerable extent. It was impossible, while these pages were going through the press, always to incorporate in the text or the foot-notes, any changes that may have taken place affecting the subject matter of the discussion during the interval between the time when the work was first completed and was finally printed.

In some cases an eleventh hour attempt has been made to make the discussion more upto date by including a brief summary of the important changes. But altogether such a work must necessarily suffer in the author's opinion from the shortcoming of being never exactly upto date. He therefore commends this work to the generous indulgence of the critical reader, not with any intention to minimise the personal criticism against himself, but rather with a view to secure a better reading for a work which the author honestly believes, attempts to meet a much felt need.

Given the character of the subject matter of this work; given the costliness of its production and the limited circle of readers which might be expected for it; the work would probably never have been published but for the generous assistance of a public-spirited citizen, who, however, prefers not to be named. The author regrets that he should be deprived of an opportunity publicly to acknowledge his indebtedness but for which the child of his brain might never have seen the light of day. The opportunity is too slight to be suffered to escape altogether without mentioning the direction in which he has received the most valuable assistance.

As hinted above, and contrary to legitimate expectations, the atmosphere of the University life in Mysore was not quite conducive to an undisturbed prosecution of research of the kind attempted by this work.

Equally against all probabilities, the work received an amount of encouragement while it was going through the press, and the writer obtained facilities for proof-reading, etc., which in view of the position he now occupies, must necessarily be regarded as a concession for which he cannot but be grateful. In cases of emergencies, when the printer's devil required the immediate return of the copy, the bestowal of time upon proof-correction has never been grudged by those, who have much less reason to be generous in this regard than a body like the University professedly meant to promote research.

Similarly, he has obtained valuable assistance in the compilation of the index and the contents from his present colleagues in the office, which he must here publicly acknowledge.

In some respects the present form of the book does not quite realise the intentions of its author. The work was originally meant to be a comprehensive compendium of Indian financial problems, which could not be regarded as complete without a review of local finance and a discussion of the finances of the Indian States, but both these have to be excluded for want of sufficient material to complete the picture.

Similarly, the author has tried, as far as it rested with him, to give point to his criticism of the existing system by formulating specific constructive schemes embodying his criticism and offering an alternative: the appendix is an illustration of such intention. It might have been doubled by an addition of another Draft Bill, recasting the tariff policy of the country, but for the fact that the entire policy in that behalf appears to be under consideration by an especially appointed committee. Pending report of this committee the author felt it would be premature to suggest a scheme of his own.

158, WALKESHWAR ROAD,
Bombay, 15th May, 1921.

K. T. S.

Preface to the Second Edition

An attempt has been made in this new edition of this work to meet some of the points in fair criticism passed upon it by the press in India and elsewhere. The figures have almost all been reduced now uniformly to rupees, instead of a mixture of sterling and rupee figures in the first edition, though the writer feels that simplicity in this case has been purchased at the cost of accuracy. The cost, however, is not regrettable as will be evident from a glance at the text. Occasion has also been taken of a new edition to reduce materially the dead weight of figures in the text, as the earlier lines of the picture might as well be indicated by decennial as by annual figures, and because only in the later figures is there any commendable degree of accuracy. Proof errors, too many to be even mentioned in the last edition, have, the careful reader will find, been very effectively reduced. Finally expressions of personal opinion or reflections, worded more warmly than discreetly perhaps, have been toned down to accommodate the hypersensitiveness of many critics, particularly non-Indian ones; but the discerning reader will, I trust, discover for himself that in these changes there is no change of the fundamental position, no dereliction of any basic principle.

Of the changes in this edition, by far the largest proportion is explained simply by the march of events since the appearance of the first edition. The Esher Report on the Army in India, the Acworth Report on Indian railways, the Inchcape Report on retrenchment, the Fiscal and the Taxation Committees' Reports as well as the Currency Commission's Report,—to mention only the most outstanding cases—have been more fully dealt with in this than was possible in the first edition. The hope expressed in the preface above about a draft bill embodying the Tariff changes suggested in this work has been realised in another work more particularly dealing with the trade of India; while the appendix in the first edition containing a draft currency bill has been deleted as the same is published more fully in my work on *Indian Currency, Exchange and Banking*, and in a slightly modified form in pamphlet form entitled "Currency Reform in India." The section on Local Finance in this edition is necessarily sketchy—for reasons outlined in the text; as also the part dealing with the finances of the Indian States. The latter certainly needs to be studied more intensively than has been possible so far. Chapters have also been added dealing with the nature of taxes and the distribution of tax-burdens; and the old chapter on Provincial finance has been considerably expanded. It is hoped the work in its new form will meet the same want as it did in the past, and so continue to deserve the appreciation of the students of finance and the public at large that it met with in the first instance.

It is a matter of regret to the writer that the new edition could not be brought out earlier owing to his own other engagements, though a new edition was in the normal course of events due as early as 1925. The delay, however, permits the hope that the work has been the richer for the longer interval.

University School of Economics and Sociology.
Bombay, 1st February, 1927.

K. T. Shah.

CONTENTS

SIXTY YEARS

OF

INDIAN FINANCE

PART I

INTRODUCTORY

> "Able as has ever been the administration of India*" said Disraeli, at the time of the transfer of the Government of India to the Crown, "considerable and distinguished as have been the men whom that administration has produced, and numerous as have been the great captains, the clever diplomats and the able administrators of large districts with whom the Government has abounded, **the state of the finance has always been involved in perplexity, and India,** that has produced so many great men, **seems never to have produced a chancellor of the Exchequer.**"

This critique of Indian finance is more than justified, if we consider that in the course of 66 years from 1792 to the end of the East India Company, the revenue of the Company showed a deficit † during nearly 40 years. The debt of the East India Company, which was afterwards made the Public Debt of India, amounted to £71,557,369 in 1858; and it cost £3 million ‡ a year in interest alone. The principal sources of Revenue and Expenditure were uncertain, unreliable, unsystematised; and, Finance, the most impor-

* Sir Charles Wood's Administration of Indian affairs, by A. West. p. 66.

† The late Mr. Dutt in his work on "India under Early British Rule"—says, "It will be seen from the figures given above (from 1792-93 to 1837-38) that if there were 14 years of deficit, there were thirty-two years of surplus; and if the deficit amounted altogether to nearly 17 millions the surplus amounted to nearly forty-nine millions. **The net financial result of Indian Administration was therefore a surplus of thirty-two millions during forty-six years.**" But the figures of expenditure as taken by Mr. Dutt are exclusive of the expenditure in England, which in later day phraseology has been described as the Home Charges. The figures given above include the Home Charges in the total expenditure; and on that basis, the net financial result of the administration of India by the East India Company was a total deficit of over £22,000,000, in 66 years. There is no reason why the Home Charges should not be included in considering the total expenditure, and Mr. Dutt himself takes them into account in another connection.

‡ Mr. Wilson in his first Budget speech observed, "The period embraces 46 years (1814-1859). Of that number we had a surplus in 13 years amounting on the whole to £8,895,437, a sum not equal to the deficit of the present year; and we had deficits in the remaining 33 years amounting on the whole to the large aggregate sum of £72,195,416." ......According to the same authority, between 1834 and 1860, there were 7 years of Surplus and 19 years which added to the debt of India, and only 15 which saw its reduction.

tant department of Government, was utterly, inevitably, inexcusably neglected in the century that witnessed the labours of a nation to bring into existence a strong, settled, peaceful, and perhaps, in course of time, a national Government, from amidst the chaos and anarchy attending the downfall of the Moghul Empire.

An attempt is made in this part to outline briefly the salient features of Indian Finance since the day that India began to pass to the East India Company to the time when the Empire was made over to be administered by and on behalf of the British Crown.

I. General View of Finances under the Company

The following table,* giving a general view of the income and expenditure of the Government of India under the East India Company in India and England, though not quite as accurate as may be desired, serves to make clear a few points of criticism with regard to the finances of the East India Company ever since it became a territorial power.

Revenue and Expenditure in India

Year.	Gross Revenues.	Gross Charges.	Net Result. Surplus.	Deficit.
	£	£	£	£
1792–93	8,225,628	6,940,833	+1,284,795	...
1801–02	12,163,589	12,410,045	...	− 246,456
1806–07	14,535,739	17,508,864	...	−2,973,125
1811–12	16,605,615	13,220,966	+3,384,649	
1816–17	18,077,578	18,446,583	...	− 369,005
1821–22	21,803,108	21,192,410	+ 610,898	...
1826–27	23,383,497	25,779,817	...	−2,396,320
1831–32	18,317,237	18,524,828	...	− 207,591
1836–37	22,359,967	19,721,605	+2,638,362	...
1841–42	21,840,018	23,723,432	...	−1,883,414
1846–47	26,084,681	27,120,630	...	−1,035,949
1850–51	27,625,360	27,205,562	+ 419,798	...
1851–52	27,665,145	27,151,377	+ 513,768	...
1852–53	28,429,275	28,045,376	+ 383,899	...
1853–54	27,916,058	30,183,227	...	−2,267,169

* The table has been constructed from the various returns made to the House of Commons and the Reports of the Select Committees which were regularly appointed since 1772 at each renewal of the Company's Charter in 1783, 1793, 1813, 1833 and 1853.

The column of Net Revenues includes the gross receipts under the several Revenue heads, less repayments and charges of collection; that of Charges includes the gross expenditure under all heads (except repayments and charges of collection, less receipts under the Service heads of Expenditure).

The receipts and charges upto 1835-36 are at a shilling the sicca rupee.

Year.			Gross Revenues.	Gross Charges.*	Net Result. Surplus.	Deficit.
			£	£	£	£
1854-55	...	...	28,959,822	31,898,782	...	−1,938,960
1855-56	...	...	30,671,958	31,971,872	...	−1,299,914
1856-57	...	...	31,415,559	31,971,084	...	− 555,525
1857-58	...	...	31,643,267	40,044,552	...	−8,401,285

Note that :—

(1) Both the Revenues and the Expenditure are constantly increasing. But in neither case is any attention paid to the scientific construction of a proper financial system. With the exception of the Land Revenue, all other sources of revenue are those prevailing in the conquered or annexed territories, without any attempt at a proper distribution of the burdens of taxation, or any attention to the economic effects of the taxes.

(2) As regards Expenditure, the most absorbing items were : War and the Company's Investment, or what afterwards developed into the Home Charges. Here, too, no attempt was made to lay out public monies for the all-round development of the country. As the territory under the Company's jurisdiction was constantly increasing, the few endeavours at organizing the civil administration, and concentrating attention on the internal development of the country, were bound to be frustrated by the altered conditions. The military expenditure was necessarily uncontrolled and uncontrollable.

(3) Each case of deficit was met by borrowing, without any attempt being made to increase the revenues or reduce the expenditure, and thus secure an equilibrium permanently. The country was in a state of ceaseless wars. As the rulers of India under the Company had not yet mastered the science of War Finance, their only remedy was to postpone the evil day by borrowing. This system more than justified the remark of Wilson—the first Finance Minister of India—"**that the condition of Indian Finance was one of chronic deficit.**"

(4) Almost all of the foregoing evils were due to the want of a separate department of Finance. All the members of the Supreme Government—the Governor-General-in-Council—were equally employed in making and unmaking kings. No one, therefore, had any time or thought for Finance.

* The figures in this table are taken as from 1792-3, and not from 1757, though the earlier year is commonly regarded as the starting point of the British rule in India. The fact, however, is, that Government, in the systematised form and deserving of the name, was not formed till Lord Cornwallis centred in himself all the authority as Governor-General of India, and announced and carried out the policy of the Permanent Settlement of Revenue from Land, and re-organised the Public Service under a solemn Covenant. The financial history of the individual presidencies is, of course, much older, even as political entities, as distinguished from commercial depôts. But it is too chequered and confused to be intelligibly condensed and incorporated in a work like this. Figures of land revenue and gross expenditure are, however, given in individual cases from earlier years in this introductory sketch. The connected account of Indian Finance as a single whole cannot be satisfactorily attempted before 1792.

II. The Principal Sources of Revenue under the Company

(A) Land Revenue

The most important source of the East India Company's revenue, ever since it became a territorial power in 1765 by the acquisition from the Moghul Emperor—the sovereign *de jure* of the country—of the Diwani of Bengal, Bihar and Orissa, was the revenue from land. We do not, of course, take into consideration the revenues of the Company from the profits of its trade, not only because such a discussion would be outside the limits of our subject; but also because ever since the counting-house clerks had abandoned the pen for the sword, the Company's trade profits were steadily ebbing away, as much on account of the new war expenditure, as by the scarcely concealed dishonesty of their servants. Land Revenue, therefore, is a most important— and, for a long time, the most fruitful— source of the East India Company's income.

(*a*) Land Revenue in Bengal, Bihar and Orissa

On the acquisition of the Diwani of the three richest Provinces of the Moghul Empire, Lord Clive continued the system of revenue collection which he found in operation in the Provinces. The system was essentially the system established by the great minister of the greatest Moghul Emperor. According to Todar Mall's system, all lands were divided into three classes. The share of the State was then fixed at one-third of the produce, which was afterwards converted into a cash equivalent. This cash demand was then fixed unalterably for a period of years, and was, under Akbar, collected directly from the cultivators (or land-owners) by the officers of the State. Mr. V. S. Smith supports the view that Akbar's settlement was Ryotwari, *i.e.*, with the cultivator direct.* Though the revenue demand varied in different provinces, as a rule it was one-third of the produce—double the previous rate; but then Akbar had remitted many other dues and taxes. In the century and a half that followed Todar Mall's famous settlement in 1582, various changes were made, both in the amount collected as well as in the mode of collection. The amount collected had been increased as follows† :—

					Rs.
Todar Mall's Settlement	1582	...	...	...	10,693,152
Sultan Suja's „	1658	...	...	...	13,115,907
Jafar Khan's „	1722	...	...	...	14,288,186
Suja Khan's „	1728	...	...	...	14,245,561

* Cp. Vincent Smith's *Akbar*, pp. 370-380, *Imperial Gazetteer* Vol. IV, *Ain-i-Akbari*. See also Mr. Moreland's recent study called "*India at the Death of Akbar*," and Kanungo on *Sher Shah*.

† These figures are given in an appendix to the minute of Sir John Shore, afterwards Lord Teignmouth, on the question of the Permanent Settlement in Bengal, 1790. Printed in V Report, 1793, of the Select Committee.

The mode of collection was altered owing to the growing interposition of capitalist revenue farmers who paid the State in advance,* and in exchange undertook to collect the share of the State demand from the cultivators. If they could realise more than they had paid to the State the excess was kept by them as their profit ; and they naturally took care to make their collections exceed their payments. If, however, by some unforeseen circumstance, like a famine or a war, the collections fell below the payment, the contractors had to bear the loss.

Prof. J. N. Sarkar,† in his work on India under Aurangzebe, gives the following figures of Revenue for Bengal, Bihar and Orissa at different periods.

The total Provincial Revenue was :—

Year.			Bihar.	Bengal.	Orissa.	Total.
1594	...	...	55,47,985	1,18,18,167	31,43,316	2,05,09,468
1648	...	...	1,00,00,000	1,25,00,000	50,00,000	2,75,00,000
1654	...	...	1,36,32,523	1,14,46,450	56,39,500	3,07,18,423
1665	...	...	95,80,000	......	72,70,000	1,68,50,000
1695	...	...	95,18,250	1,15,72,500	1,01,02,625	3,11,93,375
1697	...	...	1,21,50,000	4,00,00,000	57,07,500	5,78,57,500
1700	...	...	73,58,613	1,31,15,903	43,21,025	2,47,95,541
1707	...	...	1,01,79,025	1,31,15,906	35,70,500	2,68,65,431
1720	...	...	94,60,434	1,40,72,725	......	4,35,33,159

As already observed, Clive and his immediate successors continued the system. The revenue demands of the Bengal ‡ Subah, in the three years immediately preceding the grant of the Diwani to the Company, were :—

					Rs.
	In	1762-63	...	...	64,56,198
	,,	1763-64	...	...	76,18,407
(E. I. Co.)	,,	1765-66	...	...	1,47,04,875

The very first year of the Company's rule made an increase of nearly 90 per cent. And this increase in collection was progressively maintained in spite of famines. " Notwithstanding the loss of at least one-third of the inhabitants," wrote Warren Hastings about this time, " of the province and

* As to when and how exactly the system of revenue farming came into vogue, we have no precise knowledge. Probably it came into existence between 1707 and 1740 owing to the weakening of the central authority of the Moghuls, and the dread of the Mahratta horse let loose to collect the *Chouth*.

† The figures vary considerably, and they are often incredibly large. It must be remembered that they are not for the same area in any two cases.

‡ Sir John Shore in his famous minute of 18th June 1789 asserts that Zamindars existed in the time of Akbar and they existed when Jaffar Khan was appointed to the administration under him and his successors.

the consequent decrease of the cultivation, the net collections of the year 1771 exceeded even those of 1768."* The following table illustrates the steady growth of the Company's revenue from 1765 to 1779.†

	£		£
1765-66	2,258,227	1772-73	2,886,968
1766-67	3,805,817	1773-74	3,160,186
1767-68	3,608,009	1774-75	3,574,915
1668-69	3,787,207	1775-76	4,198,017
1669-70	3,341,976	1776-77	3,971,440
1770-71	3,332,342	1777-78	3,688,088
1771-72	3,259,564	1778-79	3,782,690

The mode of collection was also changing imperceptibly. The East India Company at first collected its revenue from the Native Agents of the Nawab of Bengal (1765–1769). Maharaja Nandkumar and Mahomed Reza Khan were the two distinguished collectors of the period. But in 1769 English supervisors were appointed to superintend the collection of Revenue and administration of justice. This Dual Government was as expensive as it was inefficient; and, therefore, in 1772 a five years' settlement was made by Warren Hastings. The constitution of the Company's Government had altered considerably when this first quinquennial settlement of land revenue expired in 1777. The Government of the day and particularly Philip Francis, the indefatigable opponent of Warren Hastings, proposed to fix permanently the "*jumma*" or land revenue, and make it a matter of public record. But Warren Hastings preferred annual auctions on the offchance of securing a greater revenue to the Company. The only concession that he would make was to give a preference to the old *Zamindars* in auctioning the land. For the next three years, 1778, 1779, and 1780, annual settlement of revenue by public auction was adopted; and thus the doubtful practice of the later Moghul day *Subas* seemed to receive the approval of the Company's Government. It was continued for another ten years even after the reforms of 1781, when a complete code of Regulations was issued for the guidance of Revenue officers and Civil Courts. At the seat of Government a central Revenue Board, called the Committee of Revenue, was formed, which also approved the principle of annual settlements of Land Revenue in the plan it submitted for improving the system and increasing the yield. In auctioning, however, preference was to be given to the *Zamindars*.

* Quoted in Hunter's Annals of Rural Bengal.

† These figures are for the Total Revenues of the Province, not Land Revenue alone. The land revenue figures are:—

1771-72 ...	£ 2,341,951	1775-76 ...	£ 2,818,017
1772-73 ...	,, 2,298,441	1776-77 ...	,, 2,755,043
1773-74 ...	,, 2,438,405	1777-78 ...	,, 2,530,042
1774-75 ...	,, 2,777,870	1778-79 ...	,, 2,656,809

No wonder that under this system of annual revision of revenue demands, payable in cash, the results were disastrous. Lands passed inevitably into the hands of moneylenders who could not possibly have any interest in agriculture. Speculation in land became a most fashionable, if somewhat risky, occupation. And though the Company's treasury benefited to the extent of Rs. 26,00,000 per year, the increasing poverty of the people and their abandonment of lands boded little good to the State in the near future.

The Directors of the Company, however anxious they may have been for dividends to the shareholders, could not for ever close their eyes to this suicidal policy. In their instructions to Lord Cornwallis, dated the 12th April 1786, they made clear their disapproval of the annual settlements, even though these occasionally resulted in increased revenues. The exclusion of *Zamindars*—the capitalists of the country—in favour of mere speculators—*Sezawals* and *Amins*—could not but prove prejudicial to the interests and the well-being of agriculture, and the possible increase in the revenues might, not inconceivably, be counterbalanced by defalcations inevitable when such large sums had to be collected from such persons. The Directors, therefore, favoured revenue settlements with hereditary *Zamindars*, declaring that:—

> "A moderate *Zumma* or assessment regularly and punctually collected unites the consideration of our interests with the happiness of the Natives and security of the landholders more rationally than any imperfect collection of any exaggerated *Zumma* to be enforced with severity and vexation.*"

And, as a preliminary step to the eventual conclusion of a permanent settlement of Land Revenue, they directed Lord Cornwallis to conclude a ten years' settlement.

Lord Cornwallis, an English nobleman and land-owner, could not but sympathise with the landed interest, such as it was at the time in India. The Board of Revenue—the new designation of the Committee of Revenue of 1781—could not, however, advise an immediate settlement for ten years before the necessary inquiries were carried out. But in spite of the many pre-occupations and anxieties of a great war, and of the reforms in the whole organization of administration, Lord Cornwallis succeeded in establishing a Permanent Settlement of Land Revenue in Bengal, Bihar and Orissa before he left India.

We shall postpone to a later chapter the discussion from an economic standpoint of the relative merits of the different kinds of Land Revenue settlement. In this brief resumé of the Company's policy with regard to the most important of its sources of revenue, it is enough to indicate the motives which influenced the authors of the Permanent Settlement in Bengal. Says Sir J. Shore—afterwards raised to the peerage as Lord Teignmouth—the able councillor of Lord Cornwallis, and Governor-General of

* Select Committee's V Report p. 13 quoted by Dutt p. 82.

India 1795–1798, in his celebrated minute (18th June, 1789) on the Permanent Settlement of Land Revenue in Bengal :—

> "The leading principles upon which I shall ground my propositions for the ensuing settlement are two : The security of Government with respect to its revenues, and the security or protection of its subjects. The former will be best established by concluding a Permanent Settlement with the *Zamindars* or proprietors of the soil. The land their property is the security of the Government. The second must be ensured by carrying into practice, as far as possible, an acknowledged maxim of **taxation. The tax** which each individual is bound to pay ought to be certain, not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and every other person.*"

Sir John seems to have somewhat abated his ardour for Permanent Settlement as shown by a later minute. But Lord Cornwallis remained firm. His minute of 3rd February 1790 reviewed Sir John's† new arguments, and replied to them. The Directors approved of His Lordship's views in their despatch of 29th September 1792. And thereupon Lord Cornwallis issued a proclamation, on 22nd March 1793, announcing the permanency of settlement which had already been concluded or was yet in progress. Regulation I of 1793 was passed accordingly.

The revenue demand from the *Zamindars* of Bengal, fixed in 1793 for all time to come, was calculated at 90 per cent. of the gross rental, and had amounted in 1790-91 to Rs. 2,68,00,989. This was as high as it was possible to go at the time. It was three times the collection of Maharaja Nandkumar's in the last year of the Nawab's rule, 1764–65, which was only 81,75,533. It was double the collection in the first year of the Company's Diwani, 1765-66, being Rs. 1,47,04,875. Within a generation it was raised by 200 per cent. It needs but to mention this figure to show that the Permanent Settlement of 1793 did not in any way err on the side of liberality at the time it was made, whether we consider the actual amount demanded, or the proportion (90 per cent.) of the rental fixed as the basis of the demand. The demand being once fixed, the *Zamindars*, whether they were originally land-owners or not, got full proprietary rights in their *Zamindaries*; capital investment in agriculture was thereby encouraged; so that to-day the amount paid by way of land revenue to the State in Bengal, Bihar and Orissa, is a steadily diminishing proportion, being estimated at less than 25 per cent. of the total rental of the landlords.

(*b*) Land Revenue Settlement in Madras.

In Madras, the situation of the East India Company was materially different. Though the first beginnings of the Company's political power were made in Madras, and though the defeat of the rival European power was crushing and complete, for a long time the Company's possessions in the

* The last words of the minute recall—if they do not reproduce verbatim—one of the famous canons of taxation laid down by Adam Smith. But in respect of this Land Tax (or rent ?) the canons of taxation were by no means always attended to.

† Sir John Shore's minute is printed in Report V, 1812; Lord Cornwallis' minutes also in the same document.

Peninsula remained insignificant. Viewed only as a military incident, the Battle of Wandewash was, perhaps, a much greater victory than the Battle of Plassey. But the consequences were different. The triumph of Plassey led irresistibly to the Diwani of Bengal, Bihar and Orissa; the victory of Wandewash was dissipated in the ill-timed haste of the Company's servants to enrich themselves. Instead of the Company acquiring any permanent interest in the administration of the territories of Nawab Mahomed Ali of Karnatic, their dominant position was used by the Company's servants—as it was also used in Bengal, but for a much shorter time—for their own private ends. The Nawab's vices ministered to the greed of his allies. He was induced or blustered into contracting debts of enormous sums to the servants of the Company, who charged interest, not in proportion to the value of the money lent, but in accordance with their calculations of getting rich*. The only security that the Nawab could offer to his grasping creditors was the revenues of his dominions, which were, therefore, collected by the Company's servants in the name of the Nawab. This wholesale farming of the revenues of the richest provinces was obviously inconsistent with any dictates of moderation, forethought or statesmanship. The Madras Presidency, therefore, has no revenue history right upto the close of the 18th century, beyond the miserable story of the insatiable greed and unbounded rapacity of the Company's servants and the Nawab's creditors. The revenues from the districts which the Company had acquired were often insufficient to meet the expenditure as the following table shows† :—

Year.	Total Revenue.	Expenditure Net.	Surplus or deficit.
	£	£	£
1767-68	351,330	459,013	—107,653
1768-69	369,720	691,471	—321,751
1769-70	500,100	467,492	+ 36,608
1770-71	552,339	434,393	+127,960
1771-72	558,850	407,446	+151,414
1772-73	529,233	309,138	+220,059
1773-74	524,762	407,144	+117,618
1774-75	503,629	454,589	+ 49,040
1775-76	514,591	345,867	+168,724
1776-77	563,349	533,182	+ 30,167
1777-78	283,198	485,830	—202,632
1778-79	494,208	803,924	—309,716

The history of British rule in the Madras Presidency, as we know it to-day, can be said to commence properly only after the final defeat of Tippu Sultan in 1799. It is true the Northern Circars had been acquired

* The notorious Paul Benfield made such an ample fortune in a short time that in 1782, when the question of the Nawab's debts was brought before Parliament, he had at least 10 purchased votes in that august body at his disposal.

† IV Report Committee of Secrecy 1812 pp. 672-74.

N.B.—Total surplus for the period £597,642
Total deficit £941,752

long before that, along with the Diwani of Bengal, in 1765. But the cession, though made by the titular Emperor of India, was not quite accepted by the *de facto* ruler of the Province—the *Subahdar* of the Deccan—till the time of the Mysore Wars. The Court of Directors had instituted a Committee of the Circuit as early as 1775 for those districts, with a view to make some definite arrangements for the collection of land revenue from those districts. But the committee was abolished by Rumbold in 1778, and he made a five years' settlement with the Zamindars of the Northern Circars, after enhancing the revenue demand by 50 per cent. The practice of annual settlements was resumed in 1783 which lasted up till 1786, when a three years' settlement was made, which was changed into five years in 1789, the State demanding two-thirds of the Zamindars' gross collections. The same arrangements were made with the new district of Guntoor acquired in 1788*.

Besides these Zamindari lands, there were in the Northern Circars also other lands, known as the *Haveli* lands, belonging more directly to the Government. These lands were mostly tracts adjoining the chief cities, and reserved, under the old regime, for the supply of the garrisons and Civil Government. After the establishment of British rule in the Circars, these lands were left to be settled at the discretion of the Government. And the Company at first adopted the system of farming out the revenues of these districts through the agency of speculating renters †. The existence of the village community was ignored, in spite of the immemorial custom, and though accepted by all previous rulers in settling and collecting the land revenue. The first reform was made in 1787 when revenue collectors were appointed, who adopted two different methods of collection. In some places the farming system was continued, while in others the practice of collection in kind from the cultivators direct was adopted. This may be taken to be the beginning of the later-day *Ryotwari* system, though the general practice at first was for the Collectors to make settlements with the head inhabitants of the villages, who then made a separate arrangement with each individual cultivator. In 1794, the Company abolished the chief and councils, and the Collectors became directly responsible for revenue settlements under the Board of Revenue ‡.

The *Zamindary* lands in the Northern Circars were permanently settled in 1802-5 under the influence of Lord Clive §. The *Haveli* lands were then parcelled out into *Mootahs* in the same period, each yielding a revenue of between 1,000 to 5,000 Star *Pagodas*, and were sold by public auction as permanent *Zamindaries*. So also the *Jhagir* lands round about the town of Madras.

The other districts of the present day Madras Presidency were acquired between 1792 and 1802. Cornwallis added to the Company's possessions Salem, Krishnagiri and the Baramahal after the Peace of

* Vide Report 1812.

† Vide Report 1812, p. 85.

‡ V. Report ibid 1812, pp. 93-98.

§ A son of the great Lord Clive.

Seringapattam. Wellesley annexed Canara, Coimbatore, and Palghat from the Mysore territory in 1799. The Raja of Tanjore, who had been ousted in 1773 to satisfy the greed of Mahomed Ali's creditors and restored in 1776, was now finally deposed ; and his territories helped to round up the Company's dominions. His old oppressor—the Nawab of Arcot—was made by the same Pro-Consul to retire on pension, and the whole of the Carnatic was annexed. When the country between the Krishna and the Tunga-bhadra was ceded by the Nizam under the subsidiary alliance, the Madras Presidency was practically complete. The settlement of these new districts was for a long time a vexed question. The generation which had influenced and carried out the Permanent Settlement of Bengal was passing away. The needs of the Company were constantly growing, and the conclusion of a fixed settlement—unalterable at any time in the future—was beginning to be regarded as injurious to the interests of the Government.

Conspicuous among the settlement officers of the time stands the name of Sir Thomas Munro. His first experience was in the Baramahal which he settled on the Ryotwari basis completely in 1798. The new system was all the more easily adopted as there were no great land-owners in the country, corresponding to the Zamindars of Bengal or the Northern Circars. It involved much greater trouble in administration owing to there being 20,000* different individuals from whom the revenue had to be collected. But the total yield was considerable, and Munro became confirmed by this experience in his belief regarding the advantages of a Ryotwari settlement. He did, indeed, desire an element of permanency in the arrangements with the Ryots, in order to stimulate improvements in agriculture. But the Madras Government did not adopt the suggestion. He was then appointed to settle Canara (1801), and the Ceded Districts of the Nizam (1801–07), in all of which he adopted the system of settling and collecting the revenue from each individual cultivator. From an exclusively revenue stand-point the results were eminently successful, as the revenue from land was raised from £402,637—as it was before the Settlement †—to £606,909 after the Settlement. But the mischievous principle was established whereby revenue officers began to judge of their efficiency according to the amount of their collections, no matter what the hardships of the practice might be on the people at large.

The Malabar Districts, which had been acquired in 1792, and were at first made over to the Bombay Government, were also settled mostly on a Ryotwari basis. The experience of the Bombay authorities in eight years of administration was not very encouraging. They had at first adopted the system of annual settlements with the Rajas and Nair Chiefs, but on the failure of the latter to pay punctually, their lands were confiscated. They made a futile rebellion. The province was then transferred to the Madras Government, who, under the direction of Lord Clive, made some settlements with the Nair Chiefs. But they were gradually ousted, and separate settlements

* Munro's letter, dated 21st September 1800. † V. Report 1812 p. 124.

with individual cultivators became then the rule. The same fate befell the *Pattakdars* of the Tanjore territory which was annexed in 1799. The *Pattakdars* were the head *ryots* treated by the old Rajas as the middlemen for their revenue demands. The British Government made settlements with individual cultivators (1804), fixing the revenue with reference to the produce of an average number of years, without any survey valuation of the lands.

The *Poligars* of the Karnatik fared hardly better. The first settlement under the British Government (1799–1800) raised the revenue demand at once by **117** per cent. against which the Southern Polygars openly rebelled! But the rebellion was put down, and a number of estates were confiscated. The revenue demand was made progressive for several years, to be fixed ultimately *at 66 per cent. of the gross collections*, and was afterwards reduced by the permanent settlement of 1803 to 51 per cent. of the gross rental in the districts of Tinevelly, Ramnad, and Sivaganga. This system was afterwards adopted in other parts of the Karnatic, excepting Chittoor, where most of the Polygar estates were confiscated, and settlements were made with the tenants directly.

The whole question of the Land Revenue settlement formed the subject of a very animated discussion in the early years of the last century (1807–1820), the Madras system being the occasion and the focus. The respective merits of the three different systems—the Bengal system of Permanent Settlement (Zamindari), the Madras system of *Ryotwari* settlement, made permanent as suggested by Munro in 1807, and the *Mauzawari* settlement with the village community, as suggested by the Board of Revenue—were hotly debated upon. The Ryotwari system was urged by Munro as combining equal advantages to the Government and to the people, if certain modifications he suggested were made. The settlement with the Ryots, he thought, ought to be made permanent, after the demand was reduced from 45% of the produce to 33⅓%. That would encourage agriculture, not only because a larger margin would be left to the cultivators, but also because new lands would be taken into cultivation more readily. The two other alternatives did not meet with the approval of the Court of Directors, and so the Ryotwari system was ordered to be adopted, without the changes suggested by the statesmanship of Munro, in all the new Provinces.

The following table shows the growth of Land Revenue in the Madras Presidency under the Company (1800–1837):—

Madras Land Revenue

Year.	£	Year.	£
1792-93	742,760	1831-32	3,252,117
1801-02	1,095,972	1832-33	2,940,703
1810-11	1,071,666	1833-34	3,176,708
1815-16	3,609,668	1834-35	3,256,855
1820-21	3,738,460	1835-36	3,297,602
1825-26	3,798,682	1836-37	3,161,490
1830-31	3,460,329	1837-38	3,431,270

(c) Land Revenue in the Northern Provinces of Agra and Oudh

The districts which are comprised to-day in the United Provinces of Agra and Oudh came under the British rule very gradually. Benares and the territories around were annexed by Hastings in 1775 on the death of the Nawab of Oudh. Allahabad and the adjoining districts were ceded by the Nawab in 1801. The conquests of Lord Lake in the Maratha War of 1802-03 brought Agra and the basin of the Ganges and the Jumna. Finally the province of Oudh was annexed in 1856.

The first to be settled was the Benares territory. The Raja of Benares, by a treaty of 27th October 1794, relinquished all his rights to the British Government—except the *Zamindari* rights over the tract which had formed the original patrimony of his family. In the following year a permanent settlement, similar to that of the Bengal Settlement, was made with the village Zamindars.

The districts ceded by the Nawab of Oudh in 1801 and the Provinces conquered by Lake in 1802-03 were the next to be settled. Henry Wellesley was the first administrator of the ceded districts, and he made a three years' settlement raising the revenue by nearly 25 per cent. over the Nawab's demand*. By Regulation XXXV of 1803 it was notified that after the first triennial settlement, another settlement for three years would be made, to be followed by one of four years, and at the end of ten years a permanent settlement would be made. The conquered provinces were also placed under the same regulation. Regulation X of 1807, repeated this pledge. But, meanwhile, the Special Commissioners appointed in 1807—Cox and Tucker—pronounced against a Permanent Settlement concluded so soon after the acquisition of the territories†. And though their suggestions were condemned by Colbrook in a strong minute of that year, the Directors had already realised the value of temporary settlements; and they declared themselves against permanent settlement in no ambiguous terms. Lord Minto and his councillors fought hard but in vain, against this policy of "Grasping at the highest revenue and wringing from our peasants the utmost rent". The directors looked only to their own dividends which were after 1813 seriously threatened by the curtailment of their trading monopoly, and which could not but derive considerable benefit from the steady increase in revenue as shown by the table ‡ :—

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* The Nawab's Land revenue assessment was Rs. 1,35,23,474.

British Assessment

First year	...	Rs. 1,56,19,627
Second year	...	,, 1,61,62,786
Third year	...	,, 1,68,23,063

Cp. Dutt: *Indian Under Early British Rule* p. 175.

†Cp. Rep. dated 13th of April 1808, Colbrook's minute of 17th March 1820.

‡The difference between the Land Revenue and gross or total revenue is accounted for by the *Abkari* Revenue or income derived from the taxation or the sale of spirituous liquors in the province—a practice inherited from the preceding Government.

Conquered and Ceded Districts—North India

Year.		Land Revenue. £	Total Revenue. £	Year.		Land Revenue. £	Total Revenue. £
1807	...	2,008,955	2,065,396	1813	...	2,508,681	2,931,906
1808	...	2,042,347	2,304,004	1814	...	2,502,223	2,815,579
1809	...	2,254,791	2,579,949	1815	...	2,483,133	2,891,045
1810	...	2,392,852	2,782,642	1816	...	2,665,667	3,130,853
1811	...	2,414,737	2,741,728	1817	...	2,626,761	2,926,923
1812	...	2,224,709	2,646,858	1818	...	2,892,789	3,262,355

Lord Hastings and his Councillors made one more effort for a Permanent Settlement in these parts:—

"It is our unanimous opinion," they wrote, "that the system of a Permanent Settlement of the Land Revenue, either upon the principle of fixed *Jumma*, or of an assessment determinable by a fixed and invariable rate, ought to be extended to the Ceded and Conquered Provinces.* "

But the Directors' reply was once more unmistakable and peremptory. In 1819 Holt Mackenzie—Secretary to the Board—had recommended a settlement with the village communities, wherever they existed, after a systematic survey and inquiry, with the rates of Revenue equallised as between the different districts †. By 1821, Permanent Settlement had become altogether out of the question. Mackenzie's suggestion was, therefore, accepted as the working basis. The Government Resolution of 1822 insisted upon the revenue demand being made at a fixed and moderate rate, and recommended that settlements be made with the landlords wherever they existed, and with the village communities where land was held in coparcenary. Regulation VII of 1822 declared the principles on which the settlement of Land Revenue in those Provinces was to be made. The Settlement was made village by village or estate by estate ‡. The assessment was to be so fixed as to leave to the landlords a net profit of 20 per cent. of the Jumma, or, in other words, the State demand was to be as high as 83 per cent. of the rental. In those estates which were held in common tenancy, the State demand was to be as high as 95 per cent. of the rental, the 5 per cent. deduction from the total rent being allowed by way of *Malikana* allowance. This was the first attempt to carry out to its logical conclusion the theory of the State ownership of land.

The policy of exacting the utmost possible from land was bound to, and did, indeed, defeat itself. Within ten years after the Regulation of 1822, Lord William Bentinck had to reduce the State demand from 83 to 66 per cent. and fix a period of 30 years during which a settlement was not to be revised or enhanced §. Martins Bird was appointed to make a

* Revenue Letter of 16th September 1820.
† Minute of July 1st, 1819.
‡ Hence the designation of *Mhalwari* settlement.
§ Regulation of 1833.

new settlement on this basis; and his labours of nine years (1833–1842) laid the foundation of the present Land Revenue system of the United Provinces. He started by making a summary of all the land in a given area, and included every field within the area in a map prepared for the purpose. A professional survey was then made showing separately the cultivated and uncultivated lands. Then followed the most arduous portion of the work. The land tax for an entire area was fixed, to be apportioned, finally, among the villages comprised within the area. Though the rule of 66 per cent. of the rental was adopted, and previous assessments, the nature of the soil and crops were taken into consideration, the determination of the rental was none the less a guess-work, depending very much upon the personal bias of the settlement officer. The idea of a permanent settlement was abandoned, but Bird intended and desired to make this settlement permanent, at least in those areas which were already fully cultivated.

This settlement was made more regular by the "Directions to Settlement Officers" drawn up in 1842 by Thomason, the Lieutenant-Governor of the Province in 1843–53. The Settlement was finally completed in 1849, and was approved of by the Directors in their despatch of August 13, 1851. The total Land Revenue demands and collections in Northern India in the last ten years of the settlement operations were :—

Year.*	Demand.	Collection.	Year.	Demand.	Collection.
	£	£		£	£
1838-39 ...	4,554,899	3,630,215	1843-44 ...	4,349,415	4,110,514
1839-40 ...	4,120,668	3,565,281	1844-45 ...	4,345,882	4,128,744
1840-41 ...	3,764,262	3,470,402	1845-46 ...	4,301,837	4,200,341
1841-42 ...	4,161,903	3,883,357	1846-47 ...	4,307,700	4,232,122
1842-43 ...	4,391,890	4,048,812	1847-48 ...	4,292,166	4,248,582

The only defect of this assessment was that the fixing of the Land Tax was uncertain and excessive. Article 52 of Thomason's directions had indeed defined the **net produce** clearly enough; but the demand of 66 per cent., humane as it was compared to the previous demand of 83 per cent., left but little to the smaller cultivators. Hence for the next settlement revised rules were issued, in connection with the resettlement of the Shaharanpur; and the most famous of them, Rule 36, runs :—

> "The assets of an estate can seldom be minutely ascertained, but more certain information as to the **average net assets** can be obtained now than was formerly the case. This may lead to an over-assessment, for there is little doubt that the two-thirds, or 66 per cent., is a larger proportion of the real average assets than can ordinarily be paid by Proprietors, or communities in a long course of years. For this

* These figures are taken from Dutt's *India under the Queen*, p. 46. It is difficult to give the figures for these Provinces continuously from their conquest, as for a long time they formed part of the Presidency of Bengal. It is only since 1835, when they were separated, that it is at all possible to compile separate figures. **This factor probably explains also a part of the later-day variations in Provincial revenues—the constant shifting of territories.**

reason Government had determined so far to modify the rules laid down in paragraph 52 of the Directions to Settlement Officers as to limit the demand of the State to 50 per cent. of the average net assets. By this it is not meant that the *Jumma* of each estate is to be fixed at one-half of the net average assets, but that in taking these assets with other data into consideration the Collector will bear in mind that about one-half, and not two-thirds as heretofore, of the well ascertained net assets should be the Government demand."

This rule is now the basis of Land Revenue Settlement of India in all provinces where the demand is not permanently fixed.

(*d*) Land Revenue in Bombay

Relatively speaking, the present Province of Bombay came much later under British rule, though the earliest English Settlements in India were on the Western Coast. All through the eighteenth century the expenditure of Bombay habitually exceeded the revenue as is evident from the figures below :—

Year.		Land Revenue.	Other Revenue.	Total Gross Revenue.	Gross Expenditure.
		£	£	£	£
1792-93	...	79,025	157,530	236,555	844,096
1801-02	...	54,571	252,421	305,992	1,414,825
1806-07	...	388,536	384,333	772,859	2,474,209
1811-12	...	433,785	308,941	742,726	1,542,485
1816-17	...	498,102	382,303	860,405	1,902,460
1821-22	...	1,761,910	1,093,830	2,855,740	3,609,894
1826-27	...	1,873,427	715,556	2,588,983	3,975,411
1831-32	...	1,395,891	700,452	2,098,243	1,416,079
1832-33	...	1,411,986	683,354	2,125,340	2,662,741
1833-34	...	1,629,580	662,627	2,292,207	2,660,037
1834-35	...	1,544,183	642,751	2,186,934	2,591,244
1835-36	...	1,719,895	704,549	2,424,444	2,572,067
1836-37	...	1,842,759	863,103	2,705,862	2,999,878
1837-38	...	1,858,525	730,040	2,587,565	2,914,857

The land revenue system in the annexed territories of the Peshwa had given prominence to the village community. The Government dues were collected through the Patels or the headmen of the villages, who were hereditary chiefs holding their land and getting their fees in virtue of a grant generally made by the Moghul rulers of the country. Under the famous *Mirasdari* tenure the Deccan Ryots were proprietors of their estates on condition of paying a fixed land-tax to the Government. Mount Stuart Elphinstone, the first Governor of the province, issued his instructions to the Collectors and Mamlatdars in his letter of July 10th, and 14th, 1819. The basic principles were : " to abolish farming but otherwise to maintain the native system, to levy the revenue according to the actual cultivation, to

make the assessment light, to impose no new taxes, and to do none away unless obviously unjust; and above all, to introduce no innovations."*

The various district administrations were then allowed to gather their own experience, and on the submission of the reports together with the minute of Mr. Chaplin, the Commissioner of the Deccan in 1822, (20th August), Elphinstone ordered a gradual survey and assessment of the whole presidency. He ordered once again that the authority of the village officers and the ancient rights of the cultivators should be preserved. The idea of survey settlements was approved of by the Directors, and they were therefore commenced (1824–28) by Pringle. The settlement of Land Revenue was to be based on the principle of Munro in Madras, *i.e.*, ⅓rd of the field produce being taken for the State.† Pringle's assessment

> "was based on a measurement of fields, and an estimate of the yield of various soils, as well as the cost of cultivation ; the principle adopted being to fix the Government demand at 55 per cent. of the net produce.‡ But the measurement was so faulty and the assessment so heavy that from the outset it was found impossible to collect anything approaching the full revenue§."

The system was eventually abandoned and a resurvey ordered in 1855, was carried out by Goldsmith and Wingate, whose twelve years' labours ended at last in a regular settlement. They abandoned the attempt to fix a standard or ideal assessment by discovering the yield from the soils and then fixing a certain proportion as Government demand. They adopted the simple expedient of ascertaining the average character and depth of soil in each field, and classing it accordingly, no less than nine gradations of valuation being employed for the purpose. In fixing the rates of assessment they were guided by purely practical considerations as to the capability of the land and the general circumstances of the districts. That is to say after classing the soils into nine different qualities they fixed

* Elphinstone's "Report on the Territories conquered from the Peshwa" October 1819.

† In a work published in 1807 and called "Journey from Madras" &c. Dr. Buchanan gives some interesting calculations relative to the incidence of the land-revenue in Madras.

He says :—

	For a field of poor quality.	For a field of best quality.
	£ s. d.	£ s. d.
Land Tax	0 12 8¼	
Collections charges ...	0 1 3¼	0 16 10
Seed	0 9 4½	0 9 4½
Expenses of cultivation	0 9 4½	0 9 4½
Interest	0 1 11	0 1 ¾
Landlord	0 1 1¾	0 8 6¼
Cultivator	0 7 8	1 5 6¼
Total ...	2 3 5¼	3 10 8¼
Land Tax	32%	24%
Expenses of cultivations	46%	28%
Cultivator	22%	48%

‡Bombay Administration Report 1872-73 page 41. §Ibid.

the assessment of the districts, after such inquiries as "the present condition of the agricultural classes, the state of the particular villages, the amount of the Government realisations, the prices of produce and similar considerations*." The revenue demand from the districts thus fixed was then distributed among the villages and fields separately, though the assessment was fixed for a term of 30 years. **The basis for the assessment was not the produce of the lands, but the value of the land.** In the letter of October 17, 1840, the Settlement Officers wrote,

> "It appears to us that a proprietary right in land can only be destroyed by the imposition of an assessment so heavy as to absorb the whole of the rent; for as long as the assessment falls in any degree short of the rent, the portion remaining will give the value to the land, and enable its possessor to let or sell it, which, of necessity, constitutes him a proprietor."†

And in their still more celebrated Joint Report of 1847, which has now become the basis of the Bombay Land Revenue system, they wrote :—

> "The cultivator's title to the occupation of fields is indestructible while he continues to discharge the assessment laid upon them; though his engagement for each be annually renewed. By placing the assessment on each field, instead of on his whole holding, he is enabled, when circumstances make the course desirable, to relinquish any of the former, or to take up others which may be unoccupied, so as to accommodate the extent of his liabilities to his new means. The fixed field assessment for the term of 30 years, introduced by our surveyors, thus secures to the cultivator the advantages of a thirty years lease without burdening him with any condition beyond that of discharging the assessment for the single year to which his engagement extends."

The only weak point in this system was that the actual assessment depended on the judgment of the revenue superintendents instead of being fixed by law unalterable; and though Wingate used his powers with moderation, it cannot be expected that all officers would be equally endowed with his tact and sympathy.

(e) The Punjab Land Revenue

The Punjab was the last Province, if we except Oudh which was annexed in 1856, added to the dominions of the East India Company. Its assessment could scarcely be expected to be completed within the ten or twelve remaining years of the Company's rule. Under the indigenous government of Ranjit Singh, the principle of assessment was to take one-half of the gross produce of the soil. In practice the collection averaged between

*Classification of lands under Bombay Settlement :—

Class.	Annas.	Class.	Annas.	Class.	Annas.
1	16	4	10	7	4½
2	14	5	8	8	3
3	12	6	6	9	2

Land of 1st order deep black dark brown soil, uniform structure, 1¾ to ¾ cubit depth.

Land of second order, uniform but coarser structure, lighter colour, less depth.

Land of third order, coarse and gravelly loose, light, brown to grey, 1 to ¼ cubit depth.

†Goldsmith and Wingate's letter of October 1840, in reply to Sadar Board's letter.

one-third and two-fifths. The collections, it must be observed, were made in kind, not in money. The British Government introduced the system of cash payments, the assessment being one-third of the gross produce. Sir John Lawrence wrote to Nicholson :—

> " Assess low leaving fair and liberal margin to the occupiers of the soil and they will increase their cultivation, and pnt the revenue almost beyond reach of bad seasons. Eschew middlemen. They are the curse of the country everywhere."

In spite of this injunction, however, the assessment was increased from £820,000 in 1847–48 to £1,106,000 in 1850–51. And as the prices were falling the collections in cash proved very onerous. Sir J. Lawrence perceived the hardships, and so in a few years he reduced the Land Tax of the Punjab from one-third to one-fourth and then to one-sixth of the gross produce. In spite—or perhaps because—of these reductions the revenues of the Punjab increased in 1856–57 and 1857–58.*

			Demand.	Collection.
			£	£
1856-57	...	...	1,485,000	1,452,000
1857-58	...	...	1,465,000	1,452,000

The regular settlement of the Punjab was based on this rule of taking one-sixth of the produce of the land. Under the system described by J. S. Mill :—

> " One and the same man is usually absolute proprietor and generally the sole cultivator, though he may occasionally lease out a few fields to the tenants. He is saddled with no rent. He has to provide for the cost of cultivation and for the Government demand ; the rest of the produce he may devote to the maintenance of his family and the accumulation of his capital. But these men, well maintaining their individuality, do not belong to the village communities.. The British Government has from the first decided on levying the tax on money payments nssessed for a number of years. The present proprietors compound with the State fo: a fixed period, such assessment and compounding being technically called a settlement. But the proprietors do not engage individually with the Government, but by villages..Primarily each man cultivates and pays himself, hut ultimately he is responsible for his co-parceners and they for him, and they are bound together by a joint liability. **The Punjab system therefore, is not Ryotwari, nor Zamindari, but the Village System."**

B. Other Sources of Revenue under the East India Company

It was ordained by the Charter Act of 1813† that the account showing the Territorial Revenue and Expenditure under the East India Company should be separated from their commercial accounts, that the former should be applied to (1) Military Expenditure, (2) Civil and Commercial establishments and to the payment of interest on the Indian debt ; the latter to be applied (1) to the payment of bills of exchange and the current payment of

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* Punjab Administration Report.
First Report in 1852.

† 53 George III c. 5, 155.

other debts ; (2) the payment of dividends and (3) to the reduction of the Indian debt or the Home Bond Debt. The Company's trade profits had averaged a little over a million sterling from 1765 to 1820. Thereafter they fell rapidly till at the time of the final abolition of the Company's trading monopoly in 1833, they were much below £500,000.

The following table shows the income of the East India Company from the other sources of Revenue, besides the income derived from land. Upto the end of the eighteenth century the revenue from other sources, in all the dominions of the Company, scarcely exceeded the revenue derived from land alone. And, though as the Government became settled, the revenues from other sources began to increase, the land revenue, upto the end of the Company's rule, contributed more than one-third of the total revenue.

Total of other Revenue

Year.	£	Year.	£
1792-93	4,312,227	1831-32	6,726,915
1801-02	7,716,743	1832-33	6,995,986
1806-07	9,887,079	1833-34	6,823,119
1811-12	11,826,081	1834-35	14,802,929
1816-17	5,877,722	1835-36	7,608,353
1821-22	8,073,891	1836-37	7,941,405
1826-27	8,484,958	1837-38	8,187,077

The principal sources of revenue, besides the Land Revenue, were Salt, Opium, Abkaree or Excise, Customs, Stamps, and the Moturpha tax, abolished in 1853 except in Madras. The system of direct taxation was almost unknown, unless we regard the Land Revenue as an instance of direct taxation. The Moturpha tax, universally detested while it lasted, was a tax on trades and professions, embracing weavers, carpenters, workers in metal, salesmen, whether shopkeepers or roadside peddlers, some paying imposts on their tools, others for permission to sell the most trifling article of trade, or the simplest tools of artisans. The collection of the tax involved endless difficulties and occasioned a great deal of oppression. After the Parliamentary enquiries, preceding the last renewal of the Company's Charter, the tax could not be maintained, especially as its total yield even in Madras did not exceed £ 100,000 a year. A more suitable and simple system of direct taxation, was reserved for the new Government of India to commence. The other sources of revenue with which we are now familiar, the income from the Railways and Irrigation Works, Post Office and Telegraphs, Forests &c. and other similar items, were as yet unknown or insignificant. The last years of the Company's Government did, indeed, witness the commencement of the Railway enterprise. In order to make up the guaranteed minimum of interest, Government had to pay

the deficit instead of receiving any surplus from the Railway Companies.* But by far the most interesting portion of the history of Railways and Irrigation Works belongs to the period when the British Crown was directly responsible for the Government of India ; and hence we may quite conveniently and appropriately defer that subject to the later sections of this work. With regard to those other items of revenue, such as the Forests, Post and Telegraphs, or Excise, a definite scientific policy, clearly conceived and generally enforced, could not be expected in an age when the chief statesmen and administrators were occupied in more absorbing, if, perhaps, less beneficial, subjects. These also may, therefore, be considered in another place.

We shall, therefore, describe briefly in this section those three sources of revenue, which, prominent under the Company, are as prominent under the Crown, and in which there is more than a suspicion that the policy of the Company is continued, in all essential particulars, by the Government under the Crown.

(a) Salt Revenue

The East India Company had acquired a monopoly of the supply of salt in Bengal, some time in the eighteenth century. Lord Clive had used this monopoly to facilitate the introduction of those reforms in the civil administration of the newly acquired territories, which were indispensable, but which would have been impossible if the greed of the Company's servants had not been appeased in some way. He, therefore, set aside the profits of the salt monopoly to form a fund accumulating at compound interest, and used for paying a bonus to the Company's servants. With the settlement of the conditions of public service by Lord Cornwallis by the institution of the Covenanted Civil Service, 1793, the profits of the salt monopoly reverted to the Government. Different systems were adopted in different provinces in order to secure this revenue. In Bengal, salt was prepared by the Company's agents† and a duty of Rs. 2-8-0 per maund of 82 lbs. was added to the cost of production before fixing a selling price. The salt obtained from the Punjab

* Amounts paid by Government on account of Guaranteed Interest.

Year.			East India Railway.	G. I. P. Railway.	Madras Railway.
			£	£	£
1849	...	...	5,602	...	...
1850	...	...	17,471	3,053	...
1851	...	...	37,188	6,319	...
1852	...	...	45,234	16,310	...
1853	...	...	52,071	22,823	...
1854	...	...	88,884	25,002	9,706
1855	...	...	195,770	30,259	18,115
1856	...	...	297,390	60,370	42,510
1857	...	...	354,511	116,612	81,139
1858	...	...	433,968	173,289	109,257
			1,528,045	455,049	260,734

† Evidence of Prideaux, Commons. Fourth Report, 1853.

mines was subject to a duty of Rs. 2 a maund, while salt from the Native States of Rajputana had to pass the notorious Inland Customs line and pay a duty of Rs. 2 to Rs. 2-8-0 per maund before it could be sold in the British territories. In Madras salt was formed from sea-water by the simple and cheap method of evaporation. The Company could, therefore, afford to sell in the Southern Presidency salt at Re. 1 per maund, and yet obtain a considerable margin of profit. In Bombay, also, the private manufacturers were allowed to remove the salt from the pans on paying a duty of 12 annas per maund, which, therefore, made up the salt revenue in that province. The reason why the incidence of salt duty on the coastal provinces was apparently so low as compared with the interior is to be found not merely in the cheaper production of sea-water salt than of the salt raised from the mines, but also because the regions on the coast were exposed to the competition of the foreign article. The Company levied an import duty of Rs. 2-8-0 to Rs. 3 a maund on all salt brought into India from beyond the seas. The object was, of course, to protect the indigenous producer against outside competition. The imports of the article from Cheshire and other parts of England were not, however, prevented or even discouraged, owing to the mistake of the Company in adding to the cost price of the Bengal salt the expenses of collecting the revenue before adding the duty and fixing the cost price, which thereby enabled the English importer to undersell the local producer.

It was deposed by Mr. Alwin before the Select Committee of the Commons that the nett salt revenue of the Company was £800,000 in 1793 and £1,300,000 in 1844; the total salt manufactured in this period was over 200 million maunds, and the total revenue during the same period was £60,000,000.

The criticism directed against the salt monopoly of the Company's government usually took the form of deprecating any revenue from such a source, and, failing that, urging the manifold abuses of a system under which prices were fixed arbitrarily and unduly high, and collectors were exposed to a strong temptation for oppression. Smuggling was profitable, and therefore inevitable; dangerous, and therefore popular and fashionable.*

(b) Opium Monopoly

The Revenue from Opium was the result of a more rigid, though, perhaps, at least in India, a less obnoxious monopoly. It was more rigid because Opium was a natural monopoly of India, and therefore a strong Government could make its monopoly complete more easily than in the case of such an article as salt. It was less obnoxious, because the bulk of the Opium revenue was paid not by the Indian, but by the Chinese consumer. Whatever may have been the indignation in the minds of English Puritans about the Opium traffic of the East India Company, the Indian people did not find it altogether so hurtful as the salt monopoly.

* See the Petitions and Memorials against the salt monopoly from Bengal, Bombay and Madras, quoted by Dutt. "*India under the Early British Rule*" and "*India under the Queen.*"

In the Company's territories, poppy was chiefly cultivated in Bengal. No one was allowed to cultivate except under an undertaking to deliver the juice to the Government at a fixed price. The juice was then refined and manufactured into opium, in the two factories of Patna and Benares; and was then sent down to Calcutta to be there sold by auction. The government revenue consisted of the difference between the selling price realised in the auction sale and the cost price, including the payments to the cultivators and the expenses of the factories. The bulk of the Opium revenue thus came from Bengal. Among the other provinces, only Bombay could show any considerable Opium receipts. But these were the result, not of a monopoly as in Bengal, but of a transit duty levied on the export of Opium from the Native States of Rajputana and Central Provinces for shipment at Bombay or Karachi. Before the conquest of Sind, the Native States' product passed through that province and evaded the Company's Customs Houses. But after 1843 Opium revenue in Bombay increased considerably. It was levied at the rate of Rs. 400 (afterwards raised) on every chest of 123 lbs.

(c) Customs Revenue

Besides the uneconomical aud wasteful Inland Customs line, the sea customs duties levied at the ports were collected under a variety of acts and at rates as shown in the table in the foot-note.*

*** Indian Customs Tariff 1853.**

	Import Duty.
Books British	Free.
,, Foreign	,,
Cotton and silk piece goods, British	5%
Cotton and silk; Foreign ...	10%
Cotton and silk thread, twist yarn, British	3%
Cotton and silk thread, twist yarn, Foreign	7%
Horses and animals	Free.
Marine stores, British	5%
,, ,, Foreign	10%
Metals British	5%
,, Foreign	10%
Beer, ale, liquors	5%
Manufacture	5% } The duties were raised during the Mutiny.
Miscellaneous	3½% }

	Import Duty.
Salt, Bengal	5/- per maund.
,, Madras	6/- ,, ,,
Spirits	3/- a gallon.
Wines and liquors ...	2/- a gallon.
Tea	10%
Woollens British ...	5%
,, Foreign ...	10%

British Tariff.

	1812.	1824.	1832.
Ornamental cane work	71%	50%	30%
Muslins	27½%	37½%	10%
Calicoes	71%	67½%	10%
Other cottons	27%	50%	20%
Goat wool shawls	71%	67½%	30%
Lacqner ware	71%	62%	30%
Mats	68½%	50%	20%
Raw silk	2⅔% per lb. plus 4/-	4/- per lb.	10/- per lb.
Silk-Manufacture	Prohibited.	Prohibited.	20%
Taffetas	,,	,,	30%
Sugar...	£ 9-13-0 per cwt. Or 65%	£3-3 per cwt. or 300%	£ 1-12-0 per cwt. or 60%

The maximum duty levied by the Indian Government never exceeded 10 per cent. On the other hand, England, before she had finally given up, in 1846-1860, the protectionist policy adopted since the reign of Elizabeth, had imposed import duties on Indian articles at as high a rate as 71 per cent., when she did not altogether prohibit the import of certain articles such as silk manufactures, as shown by the table in the foot-note on p. 23.* We need not pause here to dwell at length upon the disastrous results to the Indian industries of this policy of England. The melancholy tale has been only too often and too well told by the witnesses, mostly Englishmen, before the various Parliamentary Committees of Enquiry at each successive renewal of the Charter. The late Mr. R. C. Dutt's Economic History of India furnishes ample information—though it might appear one-sided at first reading—of the gradual decay and ruin of Indian industries, as much by the new methods and machinery of business, as by the strong protection to domestic industries granted by England. We may but quote a few remarks of List—the German Economist—which explains the policy of England :—

> "Had they (the English Statesmen) sanctioned the free importation into England† of Indian cotton and silk goods, the English cotton and silk manufactories must of necessity soon come to a stand still. India had not only the advantage of cheaper labour and raw material, but also, the experience, the skill and the practice of centuries......The effect of these advantages could not fail to tell under a system of free competition..............Accordingly, England prohibited the import of the goods dealt in by her own factories,—the Indian cotton and silk fabrics. The prohibition was complete and peremptory. *Not so much as a thread of them would England permit to be used.*"

III—Principal Channels of Expenditure †

The expenditure of the Company in India rose from £6,940,833 in 1792-93 to a total of 41,140,571 in the last year of the Company's existence. The analysis of 65 years of the Company's expenditure shows that the principal channels were :—

(*a*) Military Expenditure.

Every considerable increase in expenditure in any year as compared to a previous year is explained by the extraordinary expenditure caused by a war. Thus the wars of Lord Wellesley doubled the total expenditure between 1798 and 1805. Lord Hastings' wars added 50 per cent. and the Burmese wars of Lord Amherst accounted for another 20 per cent. addition as compared to the previous record. It would not be always easy, following a war, to effect considerable retrenchment to revert to the previous figure. For if the war had resulted in no conquests, it would render any considerable retrenchments out of the question. Hence it is that we find little, if any, reduction after the unnecessary and extravagant war with Afgha-

* It must be noted that in some cases the duties levied in the first instance at the English ports were relatively small if the goods were brought to the ports only in passing. But if the goods were meant for home consumption the duties were subsequently raised very much.

† For figures relating to the Total Expenditure of the East India Company between 1792-3 to 1857-8, see Table on p. 2 ante.

nistan (1838–42). And even if the war resulted in a substantial territorial gain—as was the case with the wars of Lords Wellesley and Hastings, Hardinge and Dalhousie—the conditions under which the Company's Government had to work in the conquered provinces made any return to the standard expenditure of peace-times impossible. The expense of garrisoning the conquered country, and organising *de novo* a strong civil government on an entirely new plan, could not very well accord with the peace standard expenditure. In this long stretch of time, therefore, we have only one considerable period of retrenchment, when a creditable and successful attempt was made to reduce expenditure, increased by a war, to its normal peace time basis. When Lord William Bentinck received charge of the Government of India in 1828, the total gross expenditure in India was £24,163,013; when he left India in 1835, it was £16,684,496, with every prospect of further reduction. It was lower than any figure in the previous twenty years, though in the course of those twenty years, the Bombay Presidency had been annexed, as also parts of Burma and Assam. Again, Lord William Bentinck had introduced several important reforms in the machinery of civil government, which also involved additional expenditure. This, however, is not the place to discuss the financial administration of Lord William Bentinck; and we shall, therefore, merely content ourselves by remarking that in the whole history of Indian financial administration, Bentinck's achievements are unique, not merely because of the reduction in total expenditure, but because the reduction was carried out without any impairment of the administrative machine. Not even Wilson's efforts after the Mutiny, or Lord Minto's efforts after the Wellesleyan wars, can compare in magnitude of savings or improvements in administration with Lord William Bentinck's.

The only attempt made to remedy the constant growth of the military expenditure, which ought to be mentioned even in this brief sketch, was the brilliant idea of Wellesley to bring about a net-work of subsidiary alliances all over the country. The idea merited a better fate than what eventually befell it. It must, indeed, be admitted that the system, in the then state of India, would, if carried out, have involved endless occasions for interference, and innumerable pretexts for War, for which the author of the system would not perhaps have been altogether sorry. We cannot, however, refuse to recognise the grandeur of the idea. Had it succeeded, it would have given the Company a dominating military position at an insignificant cost, and thereby rendered war practically impossible. All other efforts for getting rid of this incumbus of military expenditure, such as the reorganization of the army and its reduction and redistribution, belong to a later period, and would, therefore, be discussed in a more appropriate place.

(*b*) Civil Administration

The expenses of civil administration rank next in importance after the military expenditure under the Company's regime. There is no detailed

analysis, such as we now have presented to the Legislative Assembly every March, of the various branches of civil expenditure under the Company. We cannot, therefore, apply the general economic canons of public expenditure to the Company's expenses. The civil expenditure of the Company increased with every increase in the territories of the country. It consisted almost wholly of the maintenance of the administrative departments. The activities of public improvement and national development, such as education, communications, sanitation, irrigation works—all belong to a later period, though perhaps in every one of these the Company had made a beginning. Thus the first education grant was made in 1813 ; railways were commenced in 1848 ; irrigation work in the South and North had intermittently attracted official attention. The Company's system of expenditure, therefore, is open to the criticism—common, perhaps, to all European systems of public expenditure of the early nineteenth century, under the domination of the ideas of "*laissez faire*"—that beyond maintaining peace and order, it did nothing to develop the resources of the country or improve the lot of the people.

Another criticism, not quite so obvious as the one already urged, concerns the *duality* of the spending authorities. While the revenues of the Company were raised almost wholly in India, a considerable proportion of the same were spent in England. This division in the spending authorities inevitably made the control over expenditure very lax. The system was perhaps unavoidable in the first stages of the Company's rule. But the reorganization of the Company's service by Lord Cornwallis and the institution of the covenanted Civil Service led to an increase and intensification of the evil which might well have been avoided in later years. The practical exclusion of Indians from the higher branches of administrative employment necessarily resulted in a top-heavy structure with an ever-increasing influx of English officials, whose pensions and allowances steadily increased the expenditure of a part of Indian revenues in England. As the evil has in course of time become still more acute, its fuller discussion must be deferred to a later section.

(c) The Company's Investment and the Home Charges

A resolution of Parliament in 1813 had provided that

> "The whole or part of any surplus that may remain of the rents, revenues and profits, after providing for the several appropriations, and defraying the several charges before mentioned, shall be applied to the provision of the Company's investments in India, in remittance to China for the provision of investments there, or towards the liquidation of the debts in India, or such other purposes as the Court of Directors, with the approbation of the Board of Commissioners, shall from time to time direct."

What exactly the Investment of the Company in India was, has been very well described by a Select Committee of the House of Commons in their 9th report in 1783, in the following words:—

> "A certain portion of the revenues of Bengal has been for many years set apart in the purchase of goods for exportation to England, and this is called the Investment. The greatness of this Investment, has been the standard by which the merit of the

Company's principal servants has been too generally estimated. **This main cause of the impoverishment of India has been generally taken as a measure of its wealth and prosperity.** Numerous fleets of large ships, loaded with most valuable commodities of the East, annually arriving in England in a constant and increasing succession, imposed upon the public eye, and naturally gave rise to an opinion of the happy condition and growing opulence of a country, whose surplus productions occupied so vast a space in the commercial world. This export from India seemed to imply also a reciprocal supply by which the trading capital employed in those productions was continually strengthened and enlarged. But the payment of a tribute, and not a beneficial commerce to that country, wore this specious and delusive appearance."

The Company's Investment went on increasing, no matter what the economic condition of the country was in any given year. It has been estimated to have amounted on an average to £ 1,250,000 nearly every year until the limits placed on the Company's trade in 1813. And when the Charter Act of 1813 had disabled the Company from trading in India, the place of the Investment was more than taken up by the Home Charges. The table appended shows the regular growth of the Home Charges from £1,445,216 in 1814–15 to £ 4,492,470 in the last year of the Company's rule.

Table showing expenditure of the E. I. Company in England

Years.	£	Years.	£	Years.	£
1814–15	... 1,445,266	1828–29	... 1,949,760	1842–43	... 2,458,193
1815–16	... 1,217,397	1829–30	... 1,956,316	1843–44	... 2,944,073
1816–17	... 1,142,421	1830–31	... 1,446,581	1844–45	... 2,485,212
1817–18	... 1,122,291	1831–32	... 1,476,655	1845–46	... 3,044,067
1818–19	... 1,442,489	1832–33	... 1,227,536	1846–47	... 3,066,635
1819–20	... 1,303,019	1833–34	... 1,293,637	1847–48	... 3,016,072
1820–21	... 1,177,727	1834–35	... 2,162,868	1848–49	... 3,012,908
1821–22	... 1,335,921	1835–36	... 2,109,814	1849–50	... 2,750,937
1822–23	... 1,344,821	1836–37	... 2,210,847	1850–51	... 2,506,377
1823–24	... 1,273,478	1837–38	... 2,304,445	1851–52	... 3,262,289
1824–25	... 1,207,174	1838–39	... 2,615,465	1852–53	... 3,011,735
1825–26	... 1,914,293	1839–40	... 2,578,966	1853–54	... 3,264,629
1826–27	... 2,467,522	1840–41	... 2,625,766	1854–55	... 3,529,673
1827–28	... 1,960,570	1841–42	... 2,834,786	1855–56	... 4,492,470

It was deposed by a witness of considerable experience in Indian affairs before a Select Committee of the House of Commons in 1840 that a small proportion—about 1/5th—of these Home Charges represented the value of stores supplied by England to India.* The remaining sums were absolute charges upon the revenues of India for which no return whatever is made to India.

* Answer of Montgomery Martin to Question 4135.

"It is a curious calculation," he added "to show that estimating the sums of money drawn from British India for the last thirty years at three millions per annum, it amounts at 12 per cent. compound interest to £723,994,971. Or, if we calculate it at two millions per annum for fifty years, it amounts to the incredible sum of £8,400,000,000."

As this, however, is the most widely controversial point in the whole field of Indian Finance, we must leave it at this stage in this brief introduction.

IV.—The Public Debt and its Management

The finance of the East India Company being in a state of chronic deficit, as already remarked, the Company's officers met every deficit by borrowing. Usually they borrowed from the English Government or the Bank of England; and in the eighteenth century they had to pay interest at between 6 and 10 per cent. But they more frequently borrowed in India, as the Government began to be more settled. At the time when Lord Hastings had completed the conquest of the Bombay Presidency (1820-21) the total debt in India was Rs. 27,24,77,630 and in England £5,762,888, with an interest charge of Rs. 1,63,15,400 in India and £253,247 in England. This debt was not finally paid off till 1858-59. Meanwhile the Government borrowed between 1823 and 1863 at 5 per cent. as a rule, though between 1824 and 1835 small sums were borrowed even at 4 per cent. The bulk of the 5 per cent. debt was converted to 4 per cent. but owing to the shock of the Mutiny, the lower rate could not be maintained. Further efforts for reorganizing the public debt belong to a later period.*

The war finance under the Company's Government was a marvel of simplicity. Wars, in spite of their almost perennial existence, were regarded as "extraordinary" occurrences. And under the comfortable assurance that these extraordinary charges could not recur, they were met out of borrowed monies, as the annual revenues did not suffice to meet the expenditure. When Lord Cornwallis left India, the interest-bearing debt of the Company was a little over £7 millions. By the end of the eighteenth century, it had risen to 10 millions, to be more than doubled in the next five years by the wars of Lord Wellesley, and raised to 27 million in 1807. The figure remained almost stationary upto 1824, the wars of the Marquis of Hastings being paid for by the surplus revenue from the Province of Bengal. The Burmese War of Amherst was a miserable chapter of mistakes and extravagance, and added £3 millions to the debt. Lord William Bentinck found the public debt at £ 30,000,000 in 1822, and his six years of administration

* Table showing debt of the East India Company.

Years.	£	Years.	£
1812-13	30,100,695	1842-43	35,769,418
1817-18	29,992,760	1847-48	43,788,955
1822-23	28,268,188	1852-53	49,667,987
1827-28	35,436,500	1857-58	59,943,814
1832-33	35,842,926	1858-59	71,557,369
1837-38	31,698,034	1859-60	58,104,266
		1860-61	93,036,688

continually reduced it, so that on the eve of the disastrous Afghan War it was £26,947,000 (30th April 1836). This was the permanent registered debt of India. In addition there were Treasury Notes and Deposits, and the Home Bond Debt of about three millions, so that the total debt on April 30th 1836 was £33,355,536. From that time onward, the growth of the Public debt of India has been rapid and uninterrupted, though not quite so alarming for reasons given elsewhere.

V.—Financial Organisation

The financial administration under the Company suffered from the absence of any organisation. The passing of Pitt's India Act in 1783 had created a double authority in England in the Court of Directors, and the Board of Commissioners, or the Board of Control as it is more commonly known in history. While all administrative authority was vested in the Court of Directors, including the management of the Finances of the Government of India, the final control remained with the Board of Control, ultimately represented by a Cabinet Minister who was President of the Board. The object of instituting this controlling authority was probably the laudable desire to keep a commercial body, like the Court of Directors, from abusing the Company's territorial powers in India. In course of time, however, as far as the finances of the Company were concerned, this division of authority was by no means fraught with the happiest results. The slight shadow of justification that there was while the Company was a commercial body disappeared with the abolition of the Company's trading privileges in 1813. And after 1833, we have the curious spectacle of the Directors standing up for economy in India, even against the wishes of the Cabinet. The greatest financial blunder and disaster of the Company's rule—the Afghan War—was achieved by the Board of Control in the teeth of the opposition of the Directors; and as to confess the blunder frankly and make reparation for it handsomely would have been unbecoming to a Minister of the Crown in the early Victorian Era, the affair was hushed up as best they could by making the Indian Government bear the burden of the folly of English ministers.

But, if financial mismanagement was inevitable owing to a division of authority in the powers of England, there was nothing in the financial administration of India by the Company to deserve unmitigated praise. Passing over the period of commercial activities, 1600–1747, as also over the short inglorious interval when every servant of the Company who was not a robber was a fool, in the years when the political responsibilities of a governing body were fully impressed upon the rulers, no attempt was made to place the financial organisation on a more stable footing. The Governor-General and the councillors were all alike equally responsible for every question of administration; and finance was only an incident in the daily routine of administration. Even when in 1833 it was thought necessary to

enlarge the Governor-General's Council, by the addition of a special member for the purpose of making Laws and Regulations, no one deemed it necessary to tell off a member specially for finance. The elaborate procedure which now characterises the Indian Budget and Financial Statement was unknown, and perhaps impossible, under the Company. And hence the financial wheel in the complex administrative machinery worked anyhow, somewhat on the same lines as the domestic accounts of many a private individual; so much income, so much expenditure; if the balance was a deficit, the amount must be got somehow; if a surplus it must be spent anyhow.

This description may be unjust to men like Bentinck and Metcalfe, Elphinstone and Munro, Lawrence and Hardinge. But great as these men were, and fully—even painfully—alive to the financial mismanagement going on before their eyes, they were powerless to remedy permanently the root evil of the whole system. They might, indeed, try in their short period of supreme power to enforce good maxims of finance; but the evil revived with accumulated venom no sooner the strong hand had been removed.

One of the reasons which made the evil so acute in India was the excessive centralisation effected in 1773 and confirmed in 1783, before there were developed the means to make good the dictates of the Central authority. The supreme authority, vested in the Government of Bengal by the Regulating Act, could not fail to be galling to the two sister Presidencies with their long traditions of equal and independent existence. The first Mahratta War was an early indication of the resentment, which the Bombay Government not unnaturally felt against its wanton supersession. And, in the years that followed, this rankling sense of injury never quite disappeared altogether. Though the traditions of independence were supplemented by the requirements of legislation, the sense of responsibility had vanished altogether; and the Central Government was helpless to check Provincial extravagance, even when it did not itself set the pace for headless expenditure. The Provincial Governments were theoretically subordinate both in raising and expending their incomes, according to the minute, meticulous regulations laid down by the Imperial Government. But the three or four men who made up the Government of India had neither the knowledge nor the energy to control the great provincial satraps. A man like Elphinstone or Metcalfe could not fail to speak with a greater authority than an Amherst or Auckland. The difficulty was that while the Provincial Governments had no interest in collecting their revenues or economy in spending, the earning as well as the spending departments, which had necessarily to be left in the hands of the Provincial authorities, suffered from the negligence of local officers as much as from the meddlesome interference of the supreme authority.

VI.—The Revenue of Wilson

Into this chaotic mass, rendered still more confused by the last titanic struggle, order was attempted to be brought by James Wilson, India's

first Financial Minister.* The last three years alone had added nearly thirty million pounds to the public debt of India, and there was a gloomy prospect of endless deficits ahead. The new Minister for India, Sir Ch. Wood, and the first Viceroy of the English Crown, both agreed that the evil could be only lessened by entrusting the task to an expert financier. Wilson had started life as a poor apprentice to a small shop-keeper in a Scotch town. Thanks to a powerful intellect and unwearied exertions he had raised himself step by step on the ladder of fame. His commercial career suffered a set-back in the great disaster of 1837, but he passed from the counting house to Parliament, from the City to the Fleet Street. As editor of the *Economist*, he had taken a most prominent part in the most burning questions of English politics of his time—the Repeal of the Corn Laws, the recognisation of the Bank of England in 1844, the abolition of the Navigation Laws. In the Government of the country, also, he had his share. Upon the general questions of finance, taxation and currency, Wilson, though an authority himself, was gratified to find his views in unison with those of Sir Charles Wood; and as regards their application to Indian conditions, he received his instructions personally from the head of the India Office before he left the shores of England, never to return there alive.

Wilson presented his first Budget in February 1860. The Parliamentary traditions that this departure recalled were fully lived up to by the author of the Budget system in India. We shall reserve for later sections the great reforms Wilson proposed in the Indian tax-system as well as the hard struggle he made for retrenchment of an ever increasing expenditure. Here we shall only mention the general principles he laid down with regard to the management of the Indian financial system.

He started by pointing out the discrepancy between the estimates for 1859-60 laid before Parliament by the Secretary of State in the August preceding, and his own figures as then presented to the Council; and though there were sufficiently good explanations in this case, such as remission in taxation, errors in calculation would be inevitable, not only because the figures were very considerable, but because the revenue had to be collected by so many different provinces. Besides, the sources of revenue were also uncertain. The ideal, always held before the English Chancellor of the Exchequer to make his Budget estimates of the year tally as nearly as may be with the final accounts of the year, was, Wilson felt, almost impossible in India. For though the system of public accounts in India did admit of considerable improvements—Wilson suggested a special inquiry in the matter; and there was ample room for the introduction of those salutary maxims of English Finance, such as that all income and outgoings of any year must be recorded, credited and debited in that year alone—the inherent weakness of the Indian financial system made the Chancellor's task of

* The financial Department of the Government of India was created in 1843-44. Cp. Wilson's first Budget speech. But no separate minister was appointed till 1859.

budgetting in advance exceedingly and peculiarly difficult. Land revenue, the greatest source of public income, was at the mercy of wind and weather. Opium revenue, another considerable item, was well-nigh a lottery, the market being so completely dependent on speculation. And, though he does not expressly mention it, he must have felt that the whole tax system of India was singularly inelastic. There was not one item of revenue which, at a pinch, could be easily increased to tide over an emergency.

Admitting these peculiar difficulties of Indian Finance, Wilson, however, was not blind to the weakness in management so characteristic of Indian Finance. The Mutiny, he calculated, had cost in three years £30,547,448; and even allowing for all increase in income and reduction of expenditure, he feared a deficit of £6,500,000. He showed by figures that since the cessation in 1813 of the Company's trading privileges, there had been only 13 years of surplus—aggregating £8,895,437 and 33 years of deficit aggregating £72,195,416. These figures could *not* but convince him that,

"The normal state of Indian Finance may be said to be deficiency of income and addition of debt."

Elsewhere in the same statement he said,

> "Loans may be justified in times of war, and as the consequence of war for a year after; but even then they should not be exclusively relied upon. But the theory of borrowing during war time," he added, "involves some necessity to reduce debt in times of peace......a precept which had been more honoured in the breach than obedience in India."

To carry out this theory, Wilson's only hope was in the expanding resources of India. Like many other English statesmen of his day, Wilson believed:

> "England does not and never has exacted tribute from India. Every rupee of taxes raised in India is devoted strictly to Indian purposes. If England expects or desires advantage from India, it is only in a way entirely consistent with the true interest of India."

He, therefore, wanted to arrange the fiscal policy of India with a view to suit what was then honestly believed to be in the best interest of any country.

Besides the alterations in the fiscal policy, which will be considered more in detail later on, Wilson tried to re-adjust expenditure and revenue. In making retrenchments in the former, the Government of India had to consider the point below which retrenchment could not be carried consistently with good—or, as it afterwards came to be understood in the official mind,—efficient government. And though considerable retrenchments were made in the civil and military expenditure, it was still in excess of revenue. The additional revenues Wilson proposed to raise according to principles which had never till then been clearly laid down:

"All taxation," he thought, "must be based on the postulate of perfect equality and justice as between the different classes of the community. The European could henceforth no longer expect to be accorded a special treatment merely because he was not an Indian. And the canon of equality was laid down too broadly and clearly to allow the agriculturist to benefit at the expense of the industrialist. Moreover, all taxation must be in accordance with sound commercial and financial policy."*

By this our first Finance Minister meant, of course, the free trade doctrine then most in favour with the English statesmen and economists, which may be taken to be the first beginning of the Free Trade policy for India. Lastly we may mention the **third** principle laid down by Wilson that,

" The taxes in India ought not to be such as would go against the religious beliefs and sentiments of the people."

This canon, though a little too conservative, was nevertheless inevitable for the Financier who had just witnessed probably the greatest cataclysm within his memory stirred up chiefly on religious ground.

Summarising then the changes made by Wilson we find that :—

(1) He for the first time introduced the Budget system in Indian Finance. Difficult as it was to make a fairly accurate estimate of revenue and expenditure in advance under Indian conditions, it was nevertheless of immense service in bringing order out of chaos. The Government knew approximately their own position in advance. But for an unexpected calamity or windfall, the actual realisation would correspond substantially to the estimate. It was a far cry from the first Budget speech of Wilson to the day when Indians should claim the power of the purse for themselves. But the impetus was given. Interest in financial questions was aroused. Financial control was perceived to be the indispensable condition of the democratic state, and the absence of that control the hall-mark of absolutism. Anglo-Indian officials did not always take kindly to the Budget system ; and though after Wilson's changes it was too late to refuse to prepare a Budget altogether, the accompanying speech and discussion they frequently avoided by giving the Budget in the form of a minute published in the Gazette.† During the whole tenure of the Finance Ministership of Sir William Muir, not a single speech or discussion took place (1874–77), while Sir J. Strachey's superior mentality condescended only twice out of five years to invite discussion. But the original force was not exhausted, and the Indian Councils Act of 1893 made Budget discussion compulsory. The opinions of the Legislative Council were not made binding upon the Government even by the more liberal reforms of 1909. But the Budget discussions of Indian critics like Sir Pherozshah and Mr. Gokhale could not

* Budget Speech of Wilson. 19th February 1860.

† Whenever this course was adopted, it was defended on the ground that there was on fresh legislation wanted and consequently no need to present the Budget to the Council.

but abound in useful hints even to a most indifferent and contemptuous Finance Minister.

(2) A second and by no means insignificant departure made by Wilson was his attempt at enunciating the canons of taxation applicable to India. There was, in his canons, a greater degree of political expediency or statesmanlike wisdom than would suit a pedantic scientist in laying down the fundamental axioms of his science. But such as they were, these canons laid down by Wilson and still observed on the whole in this country, did an immense service by simplifying as well as systematising Indian finance.

(3) Yet another of Wilson's momentous changes, so far as the general organisation of Finance was concerned, was the emphasis he laid on testing each item of revenue and expenditure, taxation and borrowing, in the light of the principles of economic science. Though to-day our faith in the immutability of economic principles is not as solid and unquestioning as that of the contemporaries of J. S. Mill, it cannot but be regarded as a healthy change in India of his day. The generations that have since grown up have doubted the wisdom of a Free Trade policy of the Indian Government and questioned the soundness of our Railway finance, our Famine Insurance scheme, our direct and indirect taxes, our productive and unproductive expenditure. Even the fundamentals have changed. But still the removal of financial questions from the considerations of the need of the moment or the caprice of the governors is undeniably a service. It is easier for a self-sufficient bureaucracy to counteract principles than precedents.

PART II

Public Expenditure in India since 1859-60

CHAPTER I

I. General Considerations affecting Public Expenditure

The theory of public expenditure has been almost completely ignored in England owing to the dominant school of English economists of the last century being all saturated with the doctrines of "Laissez faire." The great liberal financiers did, indeed, lay stress on the need of watching carefully the growth of public expenditure;* but their views were the result rather of a desire for retrenchment than any clear perception of the utility and significance of public expenditure, on national well-being. They held the State to be a necessary evil whose scope of activity could not be too jealously restricted. Adam Smith had laid down three chief duties of the Sovereign, in which, along with the protection of subjects and maintenance of order,

> "The duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interests of any individuals or small number of individuals to erect and maintain"

found an honourable place.† But the doctrine more in accordance with the facts of English financial history in the Nineteenth century was that laid down by Sir H. Parnell who held that the State should not incur any expenditure except

> "for securing some public object, which could not be had by any other agency; and even then any expenditure incurred beyond what necessity absolutely requires for the preservation of social order and for protection against foreign attack is waste."‡

It is a logical conclusion from such ideas that any expenditure for objects other than the maintenance of order and protection was a dissipation of national savings or impairing the capital strength of the community.

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* "If there be any one danger which has recently in an especial manner beset us...... that danger has seemed to me to lie during recent years chiefly in an increased susceptibility to excitement, in our proneness to constant and apparently boundless augmentations of expenditure......I do not refer to this or that particular charge or scheme.........But I think that when in an extended retrospect we take notice of the rate at which we have been advancing for a certain number of years, we must see that there has been a tendency to break down all barriers and all limits which restrain the amount of public charge. **For my part I am deeply convinced that all excess in the public expenditure beyond the legitimate wants of the country is not only a pecuniary waste . . . . but a great political and above all a great moral evil.**" Gladstone, Budget speech, April 1861. See also Peel's advice to Gladstone as quoted by Buxton and reproduced by Bastable "Public Finance."

† Wealth of Nations p. 285.

‡ "Tract for the Times" quoted by Adams "Science of Finance," p. 57.

An adequate theory of public expenditure, disregarded in England, was elaborated in Germany with all the characteristic thoroughness of the German mind. Considering the State to be a new organism different from the totality of its citizens, and endowed with ideals of its own, they developed maxims in conformity with those ideals to regulate the outlay of public moneys. With its sovereign power to command the wealth of each individual citizen, the State must so apportion its expenditure as to develop fully the national resources according to the accepted ideals of national development. These ideals, it is true, are constantly changing. The Militarist State, for instance, would consider its military expenditure on entirely different principles from those of the Industrial State, or the individualistic State from that of the Socialist State. Besides, these ideals are often not the free, spontaneous expression of the national life of any given community. More often than not, they are imposed upon it by force of circumstances, by environment, by historical accidents. Thus the United States had developed, until the outbreak of the world-war, on the lines of non-intervention; but the instinctive imperialism of a prosperous people has now asserted itself even in America, till one wonders if the age of aggressive imperialism can ever be ended. France is another example of a progressive democracy, highly civilized, compelled to maintain a scale of military expenditure inconsistent with every principle of that civilization, except the legacy of "Revanche."* The ideal of nationality itself has in the past caused an amount of waste, incompatible with the degree of benefit received, disproportionate to the sentimental gain of securing an ethnic unity. We may hope, indeed, that after the last world war, saner ideas of international amity will emerge from the welter and chaos of the "European Anarchy" of the last century; but it is doubtful, judging from the terms of the treaty imposed by the victors upon the vanquished, if we are even now altogether free from the clouds of War. The perception of the dignity of collective life, the subordination of the individual to the community, the collaboration of each to the common good of all, indispensable for a proper organisation of public expenditure, requires a more spiritual ideal of the State than the one inculcated by the rampant commercialism of the West, a more spiritual education than the bourgeois board-school or the aristocratic university could allow.

It must also be noted that if we cannot adopt or evolve ideals of national life independent of our environment and our traditions, still less can we realise them irrespective of the material resources of the community. Public income is in every commercial state a share,—large or small,—of the total wealth

* The attitude of France during the Versailles Conference of 1919 and subsequently raises a lively apprehension whether this nation of otherwise level headed peasant-proprietors and small traders has not really been driven mad by the delirium of victory. Just as before the last War British Navalism v/s German Militarism constituted a standing menace to the peace of the world, so to-day French chauvinism, more dangerous in victory than in defeat, holds forth a terrible threat to the peace of world. There can be no scheme of all-round disarmament so long as the old imperialist ideas are suffered to determine the position and prospects of the peoples of the world. Washington Conferences, Locarno Treaties, and Geneva Pacts are futile, so long as the intense nationalism of the modern world is allowed to dominate all human intercourse.

of the community; and public expenditure, whatever its urgency, cannot be undertaken always regardless of the question of cost, of considerations of ability. The United States of America can repair the misfortune of a past completely barren of all artistic creation by spending millions on the treasures of the pen and the brush and the chisel of other countries; but the Chief of Sikim will find it difficult even to maintain the great wealth his people may have inherited in the shape of the artistic creations of the past.

We may then generalise that public expenditure is directed by the ideals of national life, adopted or imposed upon a community, and limited by its available resources. Every item of public expenditure, as well as the total thereof, must always be considered with reference to, and must be tested by its effects on the promotion of the community's well-being. We do not deny that there may be items of expenditure in the national budget of every civilised country to-day which cannot and do not fulfil that test. We may even recognise that the surgical expedient of lopping off a rotting limb,—such as is represented by the Soviet attempt at a wholesale repudiation of all Tsarist debts in Russia—may in the long run be productive of more evil than good. But allowing fully for these and the like considerations, the general principle of public expenditure may well be reaffirmed, that every item as well as the aggregate of public expenditure must be considered, and commended or condemned according as it affects the moral and material well-being of the community. Financial statesmanship consists in minimising and ultimately avoiding all expenditure of a wasteful, unproductive character; and in increasing and extending expenditure calculated to render a service, to confer a benefit, to bring in a more than proportionate material monetary return.

There is, however, one exception. Expenditure, calculated to improve the material resources of the community, may be incurred, even if its own unaided resources would not permit it to undertake these works, from capital borrowed from its neighbours. *e.g.*, Railway construction.

The actual political structure of a community may also exercise a modifying influence on the general principles stated above. If, for example, there is a division of authority for spending, between local and central or between the State and Federal powers, the division would affect not only the amount spent but also adjustment, and even its direction.

A fuller theory of public expenditure would be out of place in this work, even if there was no chance of its being misapprehended. It must be recognised, moreover, that any such theory will be inadequate always to provide the practical financier with clear cut rules in the guidance of his department. The appropriations from the public purse are likely to be abused. But the remedy for the abuse is to be found not so much in a rigid code of financial maxims (which is illusory when framed, if not impossible to formulate), as in an intelligent public opinion and in an efficient organisation of control. The observations of a general nature, therefore, incorporated in this section are intended as a guide to intelligent criticism, and have no pretension to be considered unimpeachable axioms.

II.—Characteristics of Public Expenditure distinguished from Private Expenditure

The total amount of public expenditure being ultimately dependent on the wealth of the country, it might be felt as though the same canons which apply to the expenditure of private incomes apply to that of the public revenues. It is, indeed, as much true of the individual as of the State that the excess of expenditure over income, if it continues for a long time, will cause anxiety. But in spite of this similarity there are many and more radical differences. Every private individual of intelligence and regular habits ought to make at the commencement of each year an estimate of his revenue and expenditure, on the model of the public Budget. As a rule private individuals are spared the trouble, as their income and expenditure are very nearly fixed and equal. But in the case of the State such an estimate in advance is not only useful: it is indispensable. The sums raised and spent by a first class modern State are so vast that without a careful estimate serious mistakes, confusion and waste would be unavoidable. Again, an individual is almost always absolute master. He need not render any account to any one else. If he finds his expenditure habitually outrunning his income, the dread of the prison, or of the refusal of his banker any more to accommodate him, would automatically induce him to cut his coat according to his cloth. Governments on the contrary receive and spend on behalf of others—the tax-payers. Having little interest in economy, and every inducement to be prodigal in the interests of the ruling class, they are more likely to err on the side of profusion. In the case of the individual, moreover, the side of the balance-sheet over which he has least control is the side of income. In the public Budget the part which is considered to be least admitting of variation is the side of expenditure. Hence, while an individual must regulate his expenditure according to income, the State, generally speaking, finds the determining factor in its expenditure.

There are still other and more vital points of difference between the individual and the public budget. The laws of his society effectively restrict the individual in his search for an income, but the sovereign State admits of no restraint on its actions save those of its own will. The objects, besides, for which the State makes such claims are incapable always of an objective appraisement. Its operations are not restricted by any considerations of profit or returns. If a proper balance is established between the receipts and expenditure, it is all that the State desires. If there is a difference, the State has more frequently an excess of expenditure than a superabundance of revenues.* A repeated surplus of income over expenditure gives rise to possibilities of waste compared to which the evils of temporary borrowing to adjust the balance would be insignificant.

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* Cp. Adams "Public Debts" (pp. 78–83) arguing in favour of deficits. Also, Dewey, "Financial History of the United States" describing the difficulties of the United States with their large surplus during 1885–1890.

III.—Tendency to Steady Growth in Public Expenditure

In his great work on Finance, M. P. Le Roy-Beaulieu has shown, by comparative statements, how steadily in the last hundred years the expenditure of European countries has been increasing. An indiscriminate condemnation of every increase in the scope of State activity leads many a publicist to explain the increase on the ground of the natural improvidence and maladministration of democracies. Without wavering in the least in one's faith in democracy, one may yet admit that there are factors in democracies not exclusively contributing to economy in expenditure, or even to its proper adjustment and just distribution. But even so, it would not by itself explain this steady increase of a century. The causes are deeper, more radical. The population under the Government of the leading civilized States of the world has become more numerous, more refined, more conscious of wants, better aware of the means of fulfilling them, less careful, possibly, of the means and their cost. On the other hand, causes tending to reduce expenditure are insignificant, if not non-existing. In the influences tending to increase public expenditure, special mention must be made of the rise in prices. Though more marked since the beginning of this century, and very particularly after the world-war, it must be taken to be present all through the last century, ever since, in fact, the Industrial Revolution was accomplished in England. The rise in prices not only demands a revision of the salaries of public servants; it makes the charges of such items as the equipment for the Army and the Navy relatively more costly, and the payments made by the State for every kind of stores more heavy.* Another factor leading to an increase of expenditure which ought to be specially mentioned is the growth of public indebtedness and the consequent increase in the burdens of interest. Much of the debt of the European and American Governments is due to a legacy of past wars or misgovernment, though, before the last war, an appreciable proportion of the German public debt was due to works of public utility. There is the greatest difference between the debt incurred for the wasteful object of a war and that occasioned by a well-planned scheme of national development, even though it should happen that by their very nature such works are apt to be antiquated and useless in a limited period of time. It is conceivable that as the canal was superseded by the Railway, so the Railway might be superseded by the Aeroplane or the Airship. In spite of this danger such works, properly managed while they are in operation, bear their own burdens and still leave a margin. If we

* The effects of a rise in prices are visible in the Indian Budget ever since the time of the Civil War in the United States, when the Indian products began to find a more favourable market in England. In the latter quarter of the last century our price level in India was very much disturbed and affected by the fall in the value of silver in terms of gold. The phenomenal rise in prices, brought about by the aftermath of the War and the deliberate inflation of currency in many European countries, is, in spite of its magnitude, too passing a phenomenon to be considered a commonly operating factor in increasing public expenditure.

may adopt, for the sake of illustration, the language of commerce, with a proper depreciation fund, the capital invested in such concerns is bound to be reprovided by the accumulated surplus from the profits of these very concerns.*

Among the negative causes for the increase of expenditure, the place of honour must be given to the relaxation of control and vigilance due partly to a growing prosperity in which people become indifferent to such notions of economy suggestive of straitened means, but largely to the mismanagement characteristic of new governments or unsettled states. The facility with which a strong Government can now-a-days raise funds by taxation or loans or by currency inflation is also a factor tending in the same direction. And democracies, particularly in federations, encourage the representatives of each small unit to secure the greatest possible portion of the resources of the large unit that he possibly can, and so the cumulative effect of these votes is in favour of increased expenditure. To notice this factor is not necessarily to condemn it. An enlightened democracy, with a truer and more comprehensive realisation of the functions of the State, may find itself compelled to expand its sphere of public utility which would inevitably lead to increases in expenditure.†

We have examined at some length the causes governing the increase of public expenditure in order the better to apply the principles to the analysis of the Indian Public Expenditure. But the discussion would be incomplete without a mention, however brief, of the causes tending to a reduction of the Public Expenditure. Every measure of the conversion of the Public Debt or the reduction of the Interest is to that extent bound to diminish expenditure.‡ Redemption of any portion of the Public Debt, though in the year in which the operation of the Redemption is carried out the total expenditure may seem to be inflated, ultimately acts in the same direction. Administrative reforms and simplifications in financial machinery have an identical effect. The transfer of a number of spending departments from the Central Government, which can but ill control

* The late Mr. Gokhale often said from his place in the Legislative Council that he was not afraid of the public debt of India, as the greater portion of it was secured by works of undoubted value. It is doubtful if his judgment would have remained unaltered by the recent additions to the public debt of India. See the chapter dealing with the debt of India.

† In India the conception of the duties of the State favoured by the officers of the Company was naturally a reflex of the dominant idea in England. A misconception about the causes of the Mutiny has to some extent perpetuated the ideal of absolute neutrality in India. With the exception of some works of material improvement, such as the irrigation canals and the Railways, the Government of India has not yet accepted the duty of educating its subjects, nor combating with the problem of poverty. The Beggar Committee Report relating to the Bombay Presidency, for example, considers the beggar in the light of an offender, and the report can, therefore, be scarcely regarded as a step to solve the problem of poverty.

‡ Gladstone and Goschen carried out in the eighties important measures of conversion sensibly reducing the burden of interest in England. Their example was copied in India also. See for a fuller treatment the chapter dealing with the Public Debt of India.

them, to the Local Governments, more capable of a proper appreciation of the activities of these departments as also more likely to check them, has a similar effect, though it may be that the greater attention paid to these departments would lead, under the pretext or necessity of improved efficiency, to an increase in the expenditure in the long run.

Is every increase in expenditure necessarily an improvement in efficiency? The test of efficiency in administration, particularly financial administration, lies not so much in a mere increase of the total expenditure; nor even in a niggardly refusal to spend on any occasion; but in a well-distributed expenditure likely to benefit all departments and all sections of the community according to the ideals of the day. The States, therefore, which most frequently allege this reason for the increased expenditure, are not always the best in the distribution of their public income. In the review which follows of the public expenditure of India an attempt will be made to show how far such a claim is tenable on the part of the Government of India.

IV.—Analysis of the Public Expenditure of India

After this brief account of Public Expenditure in general, let us consider in detail the expenditure of the State in India. The State in India is a Federation, distinguished from the other federations of the world by the fact that the component members are themselves the creations, and not the creators, of the common whole. Hence a study of the national finances in India must necessarily begin with those of the Federal or Central Government of India. The basic principles as well as the distinctive peculiarities of finance will be pretty thoroughly evident from this study. But we cannot, of course, consider the study to be complete, if we omit altogether any consideration of the Provincial and Local Finances. To view these last in their proper setting, we have devoted a section of this work exclusively to their study, leaving the main study entirely for what may well be described as the national finances proper. There is only one drawback or shortcoming in this plan. The component parts of the Federation of India include the so-called Indian or Native States. For these there is a scarcity of published information, an unwillingness to supply data, an absence of any system or principle, which renders it all but impossible to include a discussion of the same in this work. There is, however, a chapter devoted to an attempt at understanding the basic principles of the states' finance, as evidenced by the most considerable among them, which would round up, even if it does not complete, the treatment.

Principles of Classification

The consideration of the individual items of public expenditure would be very much simpler could we but adopt a rational system of division. The financial statements of the Government of India do, indeed,

provide us with a clear cut scheme of grouping and discussing the 50 odd items constituting the heads of the public expenditure in India. But the scheme of classification there adopted and standardised is the result rather of historical accident than of any considered scientific arrangement. For our purposes in this work, it has, of course, the merit of practical convenience and traditional regularity, though it could be hardly said that the latter has been maintained all through the period under review. But the absence of any scientific affinity between several heads grouped under one general heading exposes this method to the great disadvantage of a confusion in the fundamental principles governing such expenditure. A historical study of public finance would be *shorn of half its* value, if it does not bring into relief the first principles of public expenditure and revenues. To give but one illustration. The Financial Statements of the Government of India combine, under a *single* group, the items noted in the margin. There can be none beyond historical reason for such a grouping. Obviously Education, Sanitation, Medical or Ecclesiastical Expenditure is and must be governed by entirely different principles from expenditure on Courts and Jails, on Police and General Administration. So, again, expenditure on Ports and Pilotage, Agriculture and other Scientific departments must be ruled by different maxims from those applying to the ordinary civil departmental salaries and expenses.

Salaries and Expenses of Civil Department.

1. General Administration (with 5 subheads).
2. Audit.
3. Administration of Justice.
4. Jails and Convict Settlements.
5. Police.
6. Ports and Pilotage.
7. Ecclesiastical.
8. Political.
9. Scientific Departments.
10. Education.
11. Medical.
12. Public Health.
13. Agriculture.
14. Industries.
15. Aviation.
16. Miscellaneous Departments.
17. Indian Stores Department.

In spite of the admitted convenience of classification sanctified by long custom, it would yet be advisable for a proper understanding of the principle involved to evolve a new classification, more in accordance with the requirements of scientific grouping. The change, however, cannot be, should not be effected on the lines suggested by a new principle of division introduced by the Indian Councils Act of 1909, *viz.*, heads open to discussion, and those not open to discussion by the Legislature; or that of the Reforms Act of 1920, *viz.* Transferred and Reserved Departments, with each their voteable and non-voteable grants. Equally unacceptable is the principle of division between the Central and Provincial heads of Revenue and Expenditure. In their very nature these are principles of a political complexion, or administrative expediency, with very little financial or economic value. To adopt them in the discussion of public revenues or expenditure would necessarily deflect our attention from the main point of financial efficiency to the relatively unimportant if not quite irrelevant discussion of political expediency. Besides, such distinctions are bound to be transitory. They may be, indeed, they often are, important landmarks in constitutional progress; but they can-

not provide the student with a scheme of classification with any pretensions at all to permanence.*

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* Items of public expenditure in India in 1860, 1885 and 1925.

1860-61

1. Refunds and Drawbacks
2. Land Revenue, Sayer and Abkaree
3. Assessed Taxes
4. Customs
5. Salt
6. Opium
7. Stamps
8. Post office
9. Telegraphs
10. Mint
11. Allowances to Native States
12. Allowances to Districts
13. Army
14. Indian Navy
15. Public Works
16. Salaries
17. Law and Justice
18. Police
19. Education
20. Political Agencies
21. Superannuation
22. Miscellaneous
23. Civ. Contingencies
24. Interest
25. Home charges
26. Interest on Railways

1885-86

Direct Demands on Revenue

1. Refunds and Drawbacks
2. Assignments and Compensation
3. Land Revenue (Collection)
4. Opium "
5. Salt "
6. Stamps "
7. Excise "
8. Provincial Rates "
9. Customs "
10. Assessed Taxes "
11. Forest "
12. Registration "
13. Interest on debt
14. Interest on other obligations
15. Post Office
16. Telegraph
17. Mint
18. General Administration
19. Law and Justice
20. Police
21. Marine
22. Education
23. Ecclesiastical
24. Medical
25. Political
26. Scientific and minor Depts. Miscellaneous Civ. Ch.
27. Territorial and Political pensions
28. Civil Furlough and allowances
29. Superannuation allowances and pensions
30. Miscellaneous
31. Stationery and Printing
32. Famine Relief
33. Constr. of Protective Railways
34. Constr. of Irrig. Works
35. Reduction of debt
36. Constr. of Railways

Railway Rev. Acc.

37. State Railways
38. Guaranteed Cos.
39. Subsidised Cos.
40. Mis. Expenses
41. Irrigation Major
42. " Minor
43. Buildings & Roads Mil. Works
44. Civil Works.
45. Army.

1925-26

Direct Demands on Revenue

1. Customs
2. Taxes on Income
3. Salt
4. Opium
5. Land Revenue
6. Excise
7. Stamps:—A.–Non-Judicial
   B.–Judicial
8. Forest
9. Registration

Salt and Other Capital Outlay charged to Revenue

3a Capital outlay on Salt Works

7a Capital Outlay on Security Printing Press

Irrigation etc. Revenue Account

14. Interest on Works for which Capital accounts are kept
15. Other Revenue Expenditure

Irrigation etc. Capital Account (charged to Revenue.)

16. Construction of Irrigation etc.

Posts and Telegraphs Revenue Account

17. Posts and Telegraphs—
Interest on Debt—
   Indian Postal and Tel. Department.
   Indo-European Tel. Dept.

Posts and Telegrahs Capital Account

18. Capital outlay on Posts and Tel. (charged to Revenue.)

Debt Services

19. Interest on Ordinary Debt
   Deduct amount chargeable to—
   Railways
   Irrigation
   Posts and Telegraphs
   Other Commercial Depts.
   Provincial Governments
   Provincial Loan Fund Account.
20. Interest on other obligations
21. Reduction or Avoidance of Debt

Civil Administration

22. General Administration
   A. Heads of Provinces
   B. Legislative Bodies

Concluded on page 44.

V.—A Suggested Classification

We accordingly propose to consider the expenditure and revenues on a new classification which is based on the differentiation of the functions of the State. These functions we consider to be :—

(I) DEFENCE AGAINST AGGRESSION :—Though a relic of the barbarous origin of our present civilisation, this item has so far formed a most important section of public expenditure in all countries. Its importance arises not so much perhaps from the intrinsic merits or national benefits of such expenditure in every case, as from the vast sums spent under this head, making a very considerable proportion of the total expenditure. It was one of the dearest hopes of the lovers of peace—of humanity—that the world war of 1914–18 would result in putting a period to the mad race for armaments by bringing about universal disarmanent and a League of Nations. The League of Nations is, no doubt, an accomplished fact; but so far, at least, it has functioned only as a registry office for recording the decisions or advertising the wranglings of Britain and France. Hope is, indeed, eternal in the human breast; but the prospect of the League ever being a veritable, effective insurance against War is, to say the least, remote. * Until, therefore, the dream of universal peace and brotherhood is realised, we must include under the group of items making up the expenditure for National Defence :—(a) expenditure on military forces; Army, Navy and Air Forces and Military transport, including the pay and equipment of every fighting unit; (b) expenditure for military preparedness, such as forts, frontier or strategic railways; special harbour and other defence works, Volunteer and Reserve Forces; (c) expenditure on military operations proper such as frontier expedition

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Concluded from page 43.

C. Secretariat and Headquarters
D. Commissioners
E. District Administration
F. Home Administration
23. Audit
24. Administration of Justice
25. Jails and Convict Settlements
26. Police
27. Ports and Pilotage
28. Ecclesiastical
29. Political
30. Scientific Departments
31. Education
32. Medical
33. Public Health
34. Agriculture
35. Industries
36. Aviation
37. MiscellaneousDepartments
37A. Indian Stores Department

Currency and Mint

38. Currency
39. Mint

Civil Works

41. Civil Works

Miscellaneous

43. Famine Relief and Insurance
44. Territorial and Political Pensions
45. Superannuation Allowances and Pensions
46. Stationery and Printing
47. Miscellaneous

Military Services

48. Army
49. Marine
50. Military Engineering Services

Contributions and Miscellaneous Adjustments between Central and Provincial Governments

51A. Miscellaneous Adjustments

Extraordinary Items

Railway Expenditure charged to Revenue

* The Washington Conference of 1921 has brought some slight relief to the race for naval armaments for ten years, but the Genoa Conference of March 1922 on a similar proposal to restrict land armaments entirely broke down owing to a multiplicity of reasons; while the Locarno Paçt of 1926 has yet to be realised in practical politics.

different classification suggesting a corresponding change in the conception of the duties of the State. But, even so, at the present time, with the birth of New India and the growing consciousness of a new National Unity, it cannot be pressed too much that **the standard classification is obsolete, inadequate, inappropriate**; and that therefore a more suitable, scientific and comprehensive classification should be adopted. The change need not be too sudden. For a time indeed the present classification may be continued, with supplementary tables to show the results according to the new classification; and when the latter is perfectly familiarised it may be introduced bodily.

VI.—The Public Expenditure Considered Generally

The following figures show the growth of Public Expenditure in India during the last sixty years.*

Year.	Amount in Rs.	Year.	Amount in Rs.	Year.	Amount in Rs.
1858-59	... 50,19,46,900	1882-83	... 46,39,09,630	1906-07	... 107,48,42,025
1859-60	... 50,37,27,110	1883-84	... 46,76,84,870	1907-08	... 106,04,58,435
1860-61	... 46,74,99,860	1884-85	... 46,99,21,990	1908-09	... 110,24,13,675
1861-62	... 43,53,85,020	1885-86	... 47,97,31,740	1909-10	... 110,98,02,810
1862-63	... 42,97,43,400	1886-87	... 49,13,22,700	1910-11	... 115,12,01,790
1863-64	... 44,20,11,200	1887-88	... 50,94,81,920	1911-12	... 118,34,31,240
1864-65	... 45,58,89,050	1888-89	... 50,74,70,520	1912-13	... 125,63,24,460
1865-66	... 45,74,86,810	1889-90	... 50,91,31,670	1913-14	... 124,34,21,280
1866-67	... 44,10,82,270	1890-91	... 51,98,58,870	1914-15	... 124,41,44,040
1867-68	... 49,06,08,730	1891-92	... 54,34,09,360	1915-16	... 128,40,32,970
1868-69	... 55,30,57,930	1892-93	... 55,34,59,440	1916-17	... 147,07,56,450
1869-70	... 50,12,28,410	1893-94	... 55,80,82,160	1917-18	... 156,86,29,095
1870-71	... 49,39,60,680	1894-95	... 56,93,87,290	1918-19	... 190,61,72,295
1871-72	... 46,47,88,370	1895-96	... 58,37,26,600	1919-20	... 219,26,39,149
1872-73	... 47,90,75,170	1896-97	... 57,87,89,120	1920-21	... 149,08,04,979
1873-74	... 50,89,06,270	1897-98	... 61,69,58,780		(218,67,41,000)
1874-75	... 49,58,75,750	1898-99	... 58,29,80,810	1921-22	... 142,86,59,017
1875-76	... 49,01,38,710	1899-1900	... 88,07,20,965		(222,02,71,573)
1876-77	... 57,64,93,400	1900-01	... 97,70,45,625	1922-23	... 136,43,35,548
1877-78	... 61,91,62,240	1901-02	... 89,52,24,285		(213,66,44,170)
1878-79	... 44,94,14,130	1902-03	... 78,34,33,065	1923-24	... 130,39,64,769
1879-80	... 48,30,71,160	1903-04	... 106,95,76,730		(206,48,93,429)
1880-81	... 52,64,89,680	1904-05	... 106,48,53,185	1924-25	... 131,84,92,421
1881-82	... 48,57,47,640	1905-06	... 103,13,15,055		(210,25,62,144)
				1925-26	R.E.130,54,87,000
				1926-27	B.E.130,37,65,000

*Except for the last two years the figures refer to the accounts of each year. They are all given in rupees, being converted at £1=Rs. 10 upto 1898-99, and at the official rate of £1=Rs. 15 thereafter. This practice renders the figures unfit for comparison without serious modifications. But even these figures, though taken from the official Finance and Revenue Accounts of the Government of India, differ from similar figures given by the late Mr. Dutt in his "India under the Queen" and taken by him from the Statistical Abstract. This section deals with the causes of variations of a more general type but does not relate to such minute variations as the detailed figures for each year.

The figures for two last three years are the Revised Estimates, and Budget Estimates, respectively, of the Central Government of India only, while all the preceding figures are for the entire national government, Central and Provincial combined. For purposes of reasonably reliable comparison, the figures since 1903-04 are at all worth considering.

Two sets of figures are given for 1920-21, to 1924-25. 1920-21 being the last of the centralised Financial system, the main figure being only for the Government of India, and the bracketed one being the consolidated figure. In the 2 last years only the Government of India figure is given.

At the outset of a detailed study of the Public Expenditure in India there are several preliminary points which must be cleared up, and without which the subsequent remarks may not appear intelligible.

The most fruitful source of confusion in criticising the Indian Expenditure is **the discrepancy between the figures of the total expenditure as well as of the individual items.** As observed in the note to the preceding table, figures compiled from documents of the same unimpeachable authority show great variations in the gross and in detail. Viewed in their proper historical perspective, the variations may perhaps appear explicable if not negligible. Certainly any sound criticism of the system of expenditure, which ignores these discrepancies, would not for that reason alone be considered unfair or misleading; but for purposes of comparison, as much as for a comprehensive study, these variations must be borne in mind and their causes ascertained in order the better to make comparisons :—

Among the reasons which explain these differences, perhaps the most important will be :—

(*a*) The Growth of New Items of Expenditure

or what is the same thing for our purposes, the sub-division of existing items into more than one distinct item. In his first Budget Statement Wilson showed the entire expenditure of £41,820,016 under the marginally noted 10 heads.

		£
1.	Cost of collection ...	7,317,845
2.	Interest (India) ...	3,035,666
3.	Military charges ...	18,460,240
4.	Stores (England) ...	1,004,940
5.	Marine charges ...	816,645
6.	Civil charges	8,898,890
7.	Marine stores	103,660
8.	Stationery, Mint, &c. ...	292,270
9.	Miscellaneous	1,839,981
10.	Railway interest ...	50,000

This crude way of stating the accounts of a Continent naturally could not be tolerated. Under the revision and re-organisation of the Financial system contemplated by Wilson and carried out by his successors, the total expenditure came to be stated the very next year under the 26 heads,* mentioned below.

* The 26 heads of the Second Financial Statement are :—

1. Refunds and Drawbacks.
2. Land Revenue Sayer & Abkaree.
3. Assessed Taxes.
4. Customs.
5. Salt.
6. Opium.
7. Stamps.
8. Post Office.
9. Telegraphs.
10. Mint.
11. Allowances to N. S. under treaties.
12. Allowances to Districts.
13. Army.
14. Indian Navy.
15. Public Works.
16. Salaries and Expenses.
17. Law and Justice.
18. Police.
19. Education.
20. Political Agencies.
21. Superannuation.
22. Miscellaneous.
23. Civ. Contingencies.
24. Interest.
25. Home charges.
26. Interest on Railways.

The changes made were :—

(1) Expenditure under each revenue head, occurring collectively in the previous year's accounts under the heading "Cost of Collection," was separately given, thus facilitating a comparison between the net revenue and the gross revenue under each head; this reform incidentally revealed many an abuse in the system of collection, or demonstrated the futility of any given source of revenue, or its unexpected success.

(2) Refunds and drawbacks made under the revenues, owing to excess of collection or special exemption or compensation, were also separately shown.

(3) Charges under Civil Departments were also analysed into the component parts with greater detail, with distinct mention of such departments as Law and Justice, Police, Education, Political Agencies.

(4) Allowances to the Native States under Pensions and Revenue compensation, and allowances to the district or other local bodies under special local legislation, were also separately shown, but these have been, since 1869-70, mentioned again collectively under other heads.

(5) The Home Charges, and the charges under public works, were given collectively, a full analysis of these being given as an appendix to each statement. In subsequent years both these items underwent frequent and considerable changes. The public works charge was complicated by the distinction between Ordinary and Extraordinary charges, between Capital and Revenue outlay, as also owing to the distinction between the Civil and Military Works, or the separation of the Railways from other Public Works &c. Since 1875 the Home Charges have been shown under each head by splitting up the main financial statement into four columns respectively called India, Provinces, England and Exchange. The last item disappeared after 1899,* and has reappeared since 1919-20, owing to the currency changes of that year and thereafter.

In the years that followed, the system of showing expenditure was continually reformed on the lines indicated above. The effect of such continual changes is inevitably to cause confusion in the accounts often leading to an appreciable variation in the total as well as in the figure of individual items. For while in one set of figures a particular item may have been omitted, in another it may have been included in one and the same group.

At the present time these changes of classification have not yet ended. The vagaries or idiosyncracies of individual Finance Ministers have a great, though unwelcome influence on the system of classification. For a better understanding of the financial system as a whole, for a proper appreciation of the activities of Government, it cannot be urged too emphatically that the system of classification needs a radical, wholesale, all-round reconsideration and recasting. The lines of reclassification indicated in these pages present

* The exchange gains or losses during 1919-20 are not included here, as it may still be doubted which of the new rates has come to stay. For further discussion of this question see the section dealing with currency.

only a suggestion. But once the reclassification is accomplished and approved, it would conduce to simplicity as well as intelligibility if the new classification is standardised, if necessary, by an Act of the Central Indian Legislature, which must be observed by the Central as well as the Provincial Governments, and which cannot be altered or amended except by another Act of the Central Indian Legislature.

(b) Changes in Accounts

Another equally important and concurrent explanation of these changes or variations in figures concerns the more formal changes in accounts, relating not so much to the addition of items or sub-division of groups, but to the proper treatment of each item from the point of view of accounting. This is more a point of auditing than of Public Finance proper. But without due attention to it, the public accounts will not be properly kept, prepared or presented. Owing to the absence of such attention the accounts under the Company showed considerable confusion.* In fact a good proportion of the labour of reorganisation in the Finance Department which was undertaken by Wilson and his successors consisted of this mechanical side of proper adjustment of items in accounting. Owing to the absence of proper rules, it frequently happened that an apparent surplus was ultimately changed into a deficit by the excess of expenditure due to some important items not being regarded as expenditure for the year in which they were incurred being eventually decided by the final authority to be so treated. The most notorious illustration of the kind is to be found in the unaccountable confusion of as much as 16 crores of rupees in the second Afghan War under the Finance Ministership of Sir John Strachey.† In the system of accounts then in force

* Sir J. Trevelyan in 1864 (Budget speech).
"The most important work of all is the revision of the general system of accounts and audit. The existing system was established by the East India Company on the good old mercantile double entry principle, but it has since been overlaid and confused by a variety of obsolete entries, irrecoverable balances, and above all, by a vast number of complicated and unnecessary interpresidential and interdepartmental payments and advances. In the course of the past year, the main principles whereby regularity and exactness have been established in the accounts of H. M.'s Government, have been introduced into the Indian accounts, such as the rule that estimate shall be taken for expenditure coming in course of payments within the year, and that everything shall be debited and credited to the accounts of the year in which the amount is received or paid; that the gross receipts shall be credited to the revenue and the gross charges shall be debited to the charges; that expenditure shall be provided for a final discharge in the estimates of each of the departments responsible for the general head of the service, and so forth."

† The history and nature as well as the official explanation of this gigantic error—which in a democratic country like England would have meant a life sentence on the public career of the Minister responsible for it, if not anything worse,—may as well be given here briefly.

Afghan War, Estimates of—	£
February 1880	5,752,000
June 1880	15,000,000
October 1880	15,777,000
March 1881	16,605,000
Exp. for War 1881–82 ...	2,100,000
Frontier Railways... ...	4,477,000
Total ...	23,182,000

The table in the margin shows the cost of the war as estimated at various dates, and as finally brought to book in the accounts of the Government of India. It needs but a glance to understand the extent and nature of the error. The official explanation tendered by Sir E. Baring in the Financial statement of 1881–82 considered the mistake to have arisen from attention being devoted exclusively to the classified and audited expenditure, while the issues from the Civil Treasuries to the Military Department were neglected. The total expenditure as shown above must also be added to the expenditure on the Punjab Northern State Railway which accounted for £1,019,000.

which was regarded as responsible for the error, Sir E. Baring introduced radical changes. The Treasury officers were requested to furnish an abstract account to the Accountant-General of the Province at the end of each month in a prescribed form*. The information thus obtained was to be telegraphed by the Provincial Accountant-General to the Comptroller and Auditor-General at Calcutta, in order to scrutinize and check the accounts. Every issue from the civil Treasuries was to be treated as expenditure and not wait until classified and audited. The relations also between the Comptroller and Auditor-General and the Military Accountant-General were altered so as to make the former† authority supreme in all departments as far as the methods of keeping accounts were concerned. He would be responsible only to the Finance Ministers and through him to the Government of India. He had to keep a constant watch on the issues from the Treasuries on Military as on other accounts, and to keep the Government of India informed of the progress of expenditure. The Military Accountant-General was to be given the status and powers of a Deputy Secretary for Finance in the Military Department, and required to keep a watch on the issues on account of the Military Department. Placed at the head of the Accounts department, the Comptroller and Auditor General was required to submit a report every year to the Government of India, comparing the Budget Estimates with the accounts, explaining the causes of the variations.

In addition to these reforms, which came into force from 1st April 1881, Sir E. Baring also suggested the establishment of an **independent audit system** to supplement the then existing departmental audit system, mainly on the ground that since the two functions of audit and account were by their nature distinct, they ought to be kept separate. The Government of India could not, however, approve of the suggestion, chiefly because they contended that the particular error of the Afghan War estimates arose not from any defect in the system of audit in force in India, but from a misapplication of the system. The suggestion was, for the time being, dropped.

We have introduced in the present section this fragment at some length to illustrate the defects in the system of accounts which explain, at least in part, the variations in the final figures. A fuller description of the account and audit system is given in the section dealing with the Financial organisation of this work.

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* Receipts, Rs.	Outgoings, Rs.
Civil Revenues.	Civil Expenditure.
Debt and Remittance.	Debt and Remittance.
Post Office.	Post Office.
Military Department.	Military Department.
Public Works Department.	Public Works Department.
Opening Balance.	Closing Balance.

† This change in my opinion was inadequate, as the Auditor-General was to be a Civilian officer without any experience of the system of accounts. Would it not be a good reform to keep this branch open only to professional accountants or auditors, or at least those members of the Civil Service who have had a professional training?

(*c*) Uncertainty of Revenues and Expenditure

Though not quite connected with the general argument of this section, mention may be made here of another factor accounting for the variations in the figures,—but of a totally different kind. Every financial statement of the Government of India is presented in the beginning of the March every year, and contains figures for three years. For the year ending the 31st of March of the year preceding that in which the statement is presented, the **final accounts** are given, containing the actual income and the actual expenditure under each separate head. For the year about to close on the ensuing 31st of March the **Revised Estimates** are given, containing the actual figures for receipts and disbursements for 8 or 9 months, and for the remaining 3 or 4 months as close estimates as the information at the disposal of the Finance Department would permit. These Revised Estimates differ in the total and in the individual items appreciably, and sometimes considerably, from the actual figures given in the accounts of the same year in the following year's statement, as also from the Budget Estimates for the same year. Finally, for the year about to commence on the 1st April next, the **Budget Estimates** are given, prepared by calculation under each heading according to the existing system as modified by the changes, if any are proposed, in the Financial Statement. Just as the Revised Estimates differ from the Accounts of the same year, so the Budget Estimates differ very considerably from the Revised Estimates of that year, and again from the Accounts of the same year. For each year, therefore, three different sets of figures are necessary.

The explanation usually offered for this triple variation is that the chief items of revenues in India, *e. g.*, the Land Revenue, Salt, Customs, Opium, Railways &c., do not admit of a precise estimate in advance. These revenues depend very much on the character of the monsoon in the ensuing season, which, at the time when these estimates are prepared, is an entirely unknown quantity. There is considerable truth in this allegation as far as the items of revenue are concerned, though even in that respect it must be remembered that:—(1) The construction of Irrigation Works on a large scale in the last 20 years has made the apprehension of a complete failure of crops all over the country in any season extremely unlikely; hence the revenues depending on the prosperity of the landed classes is not so uncertain as it once could reasonably be alleged to have been. The Land Revenue, moreover, is now wholly provincialised, with fixed cash settlement. Its variations cannot, therefore, affect or explain the variations in the estimates of the Central Government; and even in the provinces, the effect of variation under this head is apt to be exaggerated. (2) The old uncertainty of yield from the opium revenue no longer worries the modern Finance Minister, since he has no more to depend on the fluctuating demands of an external market, or the vagaries of internal speculation. That revenue has since the treaty with China in 1907, ceased to be a decisive factor in the Indian Budget,

(3) Even the Railways no longer deserve the reproach of making the Indian Budget "A Gamble in Rains or Railways" as Sir Wm. Meyer once described it. It is true, the Railway income fluctuates, but the fluctuations, now that the Railways are an earning asset of the Government, are not so material as those of the once important Opium Revenue.*

(*d*) Vagaries of Exchange and Remittances

We may add here a particularly interesting explanation of these triple variations in the Revenue and Expenditure figures of the Government of India. The differences in the standard of money prevailing in this country and that familiar in their own country to the present rulers early led to the practice of presenting accounts in sterling, which was innocuous while the rupee-sterling exchange was relatively undisturbed but which became the most prolific source of confusion and variation between estimates and accounts from the moment that the Indo-British exchanges became a prey to the tender mercies of speculators. The Indian Chancellor of the Exchequer has had in the past bitter experience of the uncertainties of the Indian Revenues, and of the inability of the responsible authorities to check expenditure. Wiser by this, and preferring to be pessimistic in the expectations of the revenues and expenditure, they seem to have adopted between 1900 and 1919 the fixed maxim of habitually underestimating the revenues.† Perhaps it is a natural desire to demonstrate the excellence of their system that has led to this practice; perhaps the currency changes of 1898-99 required, as shown more fully elsewhere, constantly growing surpluses. In any case the almost unbroken series of heavy surpluses since 1900 lends countenance to this view, and exposes the financial administration of India to the obvious criticism that more is taken from the people by way of taxation than is really required by the needs of the Government. Even admitting the common explanation about the uncertainties of Indian revenues, we can scarcely explain away on

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* The Railway Finance has been wholly separated from the general finances, subject to a net contribution to the latter from the former, since *1925*. This factor is also thus inoperative.

† In this respect the late Mr. G. K. Gokhale was an untiring critic of the Government. In his very first Budget speech (*26-3-1902*) Mr. Gokhale remarked, "Indeed, My Lord, the more I think about this matter the *more I feel......that these* surpluses constitute a double wrong to the community. They are a wrong in that they exist at all—that Government should have taken so much more from the people than is needed in times of serious depression and suffering; and they are also a wrong because they lend themselves to an easy misinterpretation, and, among other things, render possible the phenomenal optimism of the Secretary of State for India who seems to imagine all is for the best in this best of all possible lands."

Mr. Gokhale explained the surpluses by the high level of taxation side by side with an artificial rise in the exchange value of the rupee. He reiterated his complaint year after year and at last in 1910 he proposed that all surplus should be devoted to projects of sanitary reform as a measure of protest against the utter heedlessness of Financial authorities. (See his speech in the Imperial Council 5-3-1910).

Contd.—The practice in the last two or three years has been entirely reversed, there being a steady overestimate on the Revenue side and a corresponding underestimate on the expenditure side.

that hypothesis the variations in expenditure.* The disturbing factors in expenditure, which, singly or collectively, have upset the calculations in the past, may be grouped under the heads of (1) Famine, (2) Exchange and (3) War. As regards the first, in all the years of the current century there has not been a single year of scarcity comparable at all in its intensity to the great famine of 1899–1900, if we exclude from the calculation the famine of 1918–19.† The measures adopted for the prevention of Famine, open to criticism as they may be in other respects, are nevertheless successful so far as to render deaths, from sheer starvation over a large area impossible. The history of a famine relief policy of the Government of India is sketched elsewhere.‡ We are here concerned to point out that Famine as a factor

* Table showing surpluses (plus) or deficits (minus) in the accounts of the Government of India between 1861-62 to 1926-27 :

Year.	Surplus or deficit. Rs.	Year.	Surplus or deficit. Rs.
1861–62	... − 5,06,880	1894–95	... + 46,20,730
1862–63	... +1,82,73,460	1895–96	... + 1,02,26,660
1863–64	... + 7,83,470	1896–97	... − 1,13,65,820
1864–65	... − 19,35,270	1897–98	... − 3,57,88,070
1865–66	... +2,76,60,680	1898–99	... + 2,64,08,730
1866–67	... −2,51,74,910	1899–1900	... + 4,16,19,345
1867–68	... −1,00,76,950	1900–01	... + 2,50,53,060
1868–69	... −2,77,40,300	1901–02	... + 7,42,74,405
1869–70	... + 11,86,690	1902–03	... + 4,60,19,910
1870–71	... +1,48,29,900	1903–04	... + 4,49,60,145
1871–72	... +3,12,41,780	1904–05	... + 5,18,41,155
1872–73	... +1,76,56,720	1905–06	... + 5,13,83,345
1873–74	... −1,80,76,680	1906–07	... + 2,38,40,625
1874–75	... + 31,91,970	1907–08	... + 45,90,690
1875–76	... +1,66,89,450	1908–09	... − 5,60,65,650
1876–77	... −2,18,27,780	1909–10	... − 90,99,615
1877–78	... −3,54,30,870	1910–11	... + 5,90,44,315
1878–79	... +1,42,30,650	1911–12	... + 5,91,05,013
1879–80	... − 87,85,960	1912–13	... + 4,66,14,506
1880–81	... −2,42,09,300	1913–14	... + 3,46,86,349
1881–82	... +2,39,69,670	1914–15	... − 2,67,79,047
1882–83	... + 44,98,910	1915–16	... − 1,78,29,917
1883–84	... +1,25,31,380	1916–17	... +11,21,72,544
1884–85	... − 25,76,319	1917–18	... +12,13,06,108
1885–86	... −1,86,78,180	1918–19	... − 5,73,06,136
1886–87	... + 11,89,510	1919–20	... −23,65,28,825
1887–88	... −1,35,25,540	1920–21	... −26,00,85,276
1888–89	... + 2,46,790	1921–22	... −36,38,23,520
1889–90	... +1,74,13,550	1922–23	... −16,51,29,676
1890–91	... +2,45,87,810	1923–24	... + 5,14,80,587
1891–92	... + 31,16,900	1924–25	... + 8,56,84,057
1892–93	... − 55,56,580	1925–26	... + 80,38,000 R. E. } Central Government only.
1893–94	... −1,03,13,320	1926–27	... + 5,31,000 B. E. }

It willl be noticed that there is an almost unbroken series of heavy surpluses from 1898–99 to 1913–14. The total net surplus during that period amounted to a little under £36 millions or Rs. 54 crores, equal to the total provincial revenues in a whole year. Before that period the surpluses and deficits are almost evenly balanced there having been 20 years of surplus totalling £23,834,468 and 17 years of deficit totalling £27,120,862 or a net deficit of £3,286,394.

† In the dearness of foodstuffs and the general level of prices the 1918–19 famine was more severe than any known so far in history. But a great portion of that calamity was due to War conditions and the consequent export of foodstuffs to the armies in Mesopotamia &c.

‡ To give one example, the famines of the decade 1870–80 cost £14,607,000. For more detailed, figures, see the section dealing with the Famine Expenditure.

of variation in the Budget Estimates and actuals has ceased to be of first rate importance. With the exception of the last great European conflict, there has been no great war. War Finance, like Famine Relief, is discussed in greater detail elsewhere. Its mention is made here merely in order to note that this second factor also cannot account for all the variations. As regards Exchange, the appended table shows the loss through that source during the period that Exchange was a dominant factor. There are few sadder chapters in the history of Anglo-Indian Finance than that relating to the mismanagement of the currency question. A chapter is devoted in this work to outline the history of this question and showing the bearing of the Currency and Exchange Policy on questions of public finance. In this place we have to point out how far the variations in the gold value of the rupee can explain the Budget variations and exonerate the authorities concerned from the attendant blame.

Year.*		Remittance.	Charges.	@d—Re.	Exch. Comp. Allowance.
		£	£		
1872–73	...	14,537,693	686,568	22·75	......
1873–74	...	13,453,026	904,878	22·35	......
1874–75	...	10,974,185	1,045,239	22·15	......
1875–76	...	12,484,003	1,434,486	21·62	......
1876–77	...	12,827,510	2,458,034	20·50	......
1877–78	...	10,241,190	2,270,135	20·79	......
1878–79	...	15,959,884	3,117,861	19·79	......
1879–80	...	17,916,739	2,957,244	19·96	......
1880–81	...	16,013,784	2,272,410	19·95	......
1881–82	...	19,179,510	2,512,739	19·89	......
1882–83	...	16,451,781	3,115,563	19·52	......
1883–84	...	18,971,399	3,360,341	19·53	......
1884–85	...	14,393,518	3,535,903	19·30	......
1885–86	...	11,578,769	4,289,810	18·25	......
1886–87	...	12,325,576	5,631,816	17·44	......
1887–88	...	15,545,145	6,049,368	16·89	......
1888–89	...	14,392,794	6,383,146	16·37	......
1889–90	...	15,622,525	6,757,923	16·56	......
1890–91	...	16,130,916	5,468,057	18·08	......
1891–92	...	16,252,486	7,200,880	16·73	......
1892–93	...	16,683,005	10,287,290	14·98	......
1893–94	...	9,677,561	11,523,325	14·54	Rs. 619,468
1894–95	...	17,053,384	15,044,968	13·10	,, 1,239,275
1895–96	...	17,835,481	13,990,949	13·63	,, 1,327,632
1896–97	...	15,789,407	12,116,399	14·45	,, 935,176
1897–98	...	9,017,194	10,562,301	15·35	,, 685,865
			144,292,333		

* The figures of Remittance give the total remittance, which is not always equivalent to the Home Charges or the Expenditure in England. They used to avoid, when the exchange was against us, sending more than was absolutely necessary. The policy of selling Council Bills without limit is the result of fixing the Exchange after 1899. The net loss on the remittance in 25 years of disturbed exchange is 14¼ crores of rupees. The charges column represents the net loss in a year due to Exchange.

The charges column includes the compensation given since 1893–94 to the officers of the Government of India, by way of an indemnity for the loss through Exchange. The figures in the last column give these sums granted as Exchange Compensation Allowance.

The loss on Exchange of 35 crores due to the "organised loot" of 1920-21 is explained elsewhere (See Indian Currency, Exchange and Banking); and that on the same head resulting from the present fictitious rate is not included in these figures, but amounted to nearly 20 crores in 2 years.

The rate of Exchange is given in pence per Rupee and is the average rate of all the remittance transactions during the year.

Ever since the demonetisation of silver by European States in the seventies of the last century, it was clear that the Government of India, with their large gold obligations and all their revenues collected in silver, would be very heavy sufferers. They did not, however, take any steps to reduce or alter the character of these obligations. In fact, after they had become aware of the annually increasing burden of exchange, they, instead of curtailing these obligations, went on adding to these commitments, not merely by a continued system of large borrowings in England for the purpose of prosecuting the railways and other productive or unproductive works, but by a constant expansion of civil and military departments, all manned by Europeans with salaries paid in rupees and pensions paid in sterling. In all the financial statements for which he was responsible, Lord Cromer * emphasised again and again the need for reducing the sterling obligations of the Government of India. And though he was primarily arguing only for Railway borrowing, or for other capital enterprises, the argument applied with still greater force to the increase of gold obligations through other causes. For, while the railways had at least a pretence of being eventually self-supporting and even earning assets, most of the other expenditure—particularly the military expenditure—had not even a shadow of such justification. The steps that the Government of India did adopt related to the change in the standard, and not to the fundamental cause of the increasing expenditure. It was, therefore, relatively unimportant whether or not these measures succeeded; for whether we accepted the gold standard, or kept the silver standard, or adopted an international bimetallism, or fixed by law the value of the rupee in terms of the sterling, **the root cause would remain unaffected.**

As if it was not enough that the Government had ignored the real cause of the trouble, that they had not made any effort to alter the character of their newer contracts and obligations, the Government proceeded in June 1893 to add to the burdens, and granted to its non-Indian public servants the **Exchange Compensation Allowance.**† The only argument that was ever advanced for such a one-sided measure was that a small section of the employees of the Government of India, who make regular remmittances to England to support their families, found that it cost them more and more to make remittance to England as the value of the rupee fell lower and lower. For the benefit of this small but noisy section, in spite of falling revenue and increasing difficulties, Government undertook this additional obligation against all considerations of equity, economy, or enlightened administration. (1) It was against justice and equity, because the employees of the Government had no legal claim to this concession, as, under their contract, Government was

* Cp. His Budget Speech of 1881, 1882 and 1883. For the increase of the sterling debt and of the interest during this period, see the table of debt in the sections dealing with it.

† Government allowed the fixed rate of 1/6 for the rupee to such of their servants as had to make remittances to England to the extent of half their salaries and not exceeding £1,000 per annum. This would mean in 1893-94 practically a bonus of 50% on home remittances since the rupee had fallen to a shilling in that year.

bound to pay the salaries and emoluments of their servants *only in rupees*. The Government of India was scrupulously observing its contracts in spite of the heavy obligations. The pay of the British soldier in India had been fixed in terms of sterling; and though that involved a payment of a much greater number of rupees in 1898 than in 1868, no one was hardy enough to suggest an alteration of that arrangement for the benefit of the Government of India. The payment of the pensions of the retired servants of the Government of India resident in England had been undertaken in terms of pounds sterling, and nobody suggested a variation of the arrangement—though it was really more than a hundred years old, having been fixed by Cornwallis in 1793, and very little altered since then to the prejudice of the superior servants of the State—because no one had the audacity to question the sanctity of solemn contracts. In 1895 the Government of India could have easily borrowed almost any sum it wanted at 2½ per cent; and yet it never dreamed of altering the arrangements with the Guaranteed Railway companies to whom it was stipulated to guarantee a minimum of 5 or 4 per cent. return on their capital investment. Instances of this kind could be cited from every other department, in which, though the existing contracts were found to be undeniably onerous and oppressive, it would have called forth disgust and dismay if the Government had suggested an alteration in their own favour. And if existing contracts could not be—should not be—disturbed **in favour** of the Government, it may at least be asked whether there was any justice or equity in disturbing such contracts **against** the Government. (2) The only answer that could be made to such a query, with any show of reason, is that such a powerful body as the Government of India must not be judged by the same principles of equity and justice as would be unimpeachable when applied to questions between man and man, between equals. The Government might quite reasonably be asked to grant concessions, even against the contract between it and its servants, if the altered circumstances make the literal enforcement of old rigid contracts unfair to the servants. For Governments more than individuals must not stick to their stipulated pound of flesh. But in this case the circumstances did not demand, and would not justify, such a concession. For if the European servants of the State in India suffered by a fall in Exchange, the Government of India were suffering still more heavily. Their existing resources were proving constantly inadequate to meet their obligations, thanks to the fall in the gold value of the rupee. New taxes had been imposed and old taxes increased to keep up with the growing expenditure. Further burdens could not be met from additional taxation on a community, already admitted as being taxed to their utmost capacity. And it would, therefore, be bad finance and bad equity to the whole community, already overtaxed, to increase taxation for the benefit of a small though powerful section. (3) Besides, while admitting that the fall in the value of the rupee had diminished the gold value of the salaries of the European public servants in India, it must be remembered that the salaries themselves were originally fixed so high that the hardship on the European servants

of the State were by no means so high as to justify such a concession. The lowest value of the Rupee was a little over 13*d.* Taking the original value to be 22*d.* there was a maximum fall of 40% in the gold value of the salaries. During the last war, prices—generally speaking—have risen by over 100% which may be taken to be equivalent to a fall in the value of fixed money salaries of over 50 per cent. And yet this did not for a long while require any special compensation to Government servants above the level of menials, peons and low-paid clerks.* Why should, then, a much smaller decline be required to be compensated for specially? It is the inherent defect of our community, and in fact of the whole social organisation in the world, which makes such fluctuations in the value of money inevitable. But the Government would soon be bankrupt which would consider itself bound to compensate specially its servants every time such fluctuations occurred to the disadvantage of the public servants. (4) Perhaps all these arguments against the grant of Exchange Compensation Allowance would have lost their sting if Government had been scrupulously, meticulously fair in awarding this grant. But the grant was made to all the servants of the State whose salaries had suffered by the vagaries of the Exchange—in other words only to the European servants of the State. Now, if it be admitted that the fall in the value of the rupee had caused a rise in the general price level, which it need not be denied was largely fixed according to gold standard, the Indian public servant had suffered in the same way, and perhaps to the same extent†, by the rise of prices in India. To exclude him from the receipt of this compensation allowance could not but make the Indian feel that his country existed for the benefit of the European and not for his. (5) Still another defect in this grant—a defect of detail but of very great importance—was that the grant was made to all European servants of the State alike, whether they were already in the service or not. It may, perhaps, be specially pleaded on behalf of the old servants that since their entrance into service the conditions had materially altered, and Government might be pleased to consider and compensate them for their new hardships. But the same argument could scarcely be urged on behalf of the new servants—those who had joined when the fall in exchange had become an accomplished fact, and only the extent of the fall was changing from year to year;

*Since the above was written, very considerable additions have been made to the salaries of the superior public servants; and the additions, insupportable under a series of progressively increasing deficits, have been invested with the sacrosanct character of solemn engagements. The recommendations of the Lee Commission on the Public Services have riveted these and other additional burdens, open or concealed, by the special extraordinary procedure of a parliamentary enactment overruling in effect the Indian Legislature, which had declared its unwillingness to accept those recommendations in no uncertain terms.

† In his interesting work on "Modern Currency Reforms," Prof. Kammerer has shown, by appending a table of variations in the index numbers of gold and the value of the rupee in India as measured by its purchasing power over commodities, that while the extreme variation in the value of gold was 63 points (100 to 163) between 1873 and 1893, that of silver in the same period was 27, and that of the rupee 31 points. "India," he says, "was like a merchant who had agreed to deliver over a long period of years, in return for a lump sum payment, a certain number of yards of cloth of a given kind annually, and who unexpectedly found that the yard stick was increasing in size three to four per cent. every year."

or worse still, those who were to join after the fall had reached its maximum. It might well be argued that these latter joined with their eyes open to the prevailing state of things. They would, of course, naturally benefit from any measures Government might adopt to steady the exchange value of the rupee for their own safety. But why should they be given any special compensation when they were perfectly aware of the declining value of the unit in which their salaries would be paid ? It was the absence of any reasonable answer to this question along with all the foregoing arguments against this grant, that made the policy so thoroughly objectionable.*

This is, perhaps, too long a digression to be inserted in this place. It was necessary and unavoidable to show how attempts are made to mitigate the blame for misjudged acts of policy by urging specious arguments about an unfavourable providence. The variations in exchange would have

* In 1893 the serious fall in the sterling value of the rupee made it necessary to give some compensation to European officers employed in India who have ordinarily to remit the money to England for the maintenance of their families; and Government accordingly sanctioned the grant to such officers of an allowance designated the **Exchange Compensation Allowance,** sufficient to enable them to remit one half of their salary to Europe at a privileged rate, subject to a maximum limit of £1,000 a year. The allowance took the form of a percentage on salary calculated on the difference between the sterling value of half salary at the market rate of exchange and its value at the privileged rate of 1*s*. 6*d*. per rupee, and was subject to the condition that it should in no case exceed in any quarter of the year the amount of rupees by which £250 converted at the privileged rate fell short of the equivalent of £250 converted at the market rate. The percentage on salary was, until 1901, based on the amount by which the average demand rate of exchange during the quarter ending on the day named fell short of the privileged rate. In 1901 the exchange value of the rupee had become practically stable at 1*s* 4*d*. and in order to avoid the quarterly calculations it was decided that instead of the average quarterly rate, the market rate of exchange should be taken at 1*s*. 4*d*. per rupee. This decision was in force up to 1917. In this year, however, as the result of special conditions due to the war, the exchange value of the rupee had risen above 1*s*. 4*d*.; and in view of this rise it was decided to restore the practice obtaining before 1901. Accordingly the percentage on salary from December 1, 1917, began to be calculated with reference to the market rate of exchange. In 1921, it was decided that the percentage admissible as E.C.A., if and when admissible, should be calculated on the rate for telegraphic transfers from Calcutta on London on the 20th of the month preceding that in which the payment is made. The rate of E.C.A. was accordingly worked out every month, and circulated to the officers concerned in the Government Gazette published on or after the 20th of each month.

2. In sanctioning the grant of E.C.A., Government had decided that the allowance should cease to be admissible on the occasion of a revision of pay of a service or appointment previously entitled to it. In pursuance of this policy, and as a result of the recommendations of the Public Service Commission, when the pay of the various services and appointments was revised in 1919 and 1920, the exchange compensation allowance was withdrawn from them. An exception was made in the case of the Indian Police Department, in which it was retained in the case of officers who were recruited before 1906.

3. In 1921, representations were received by Government regarding the difficulties experienced by officers of European domicile whose home remittances as measured in rupees had been largely increased by the low rate of exchange for the time prevailing. To mitigate the hardship caused to some extent, Government in October 1921 issued orders that any individual officer who was then holding substantively or in an officiating capacity a post, the pay of which had not been increased, and who drew E.C.A. while holding the post at any time before the revision, would be allowed so long as he continued to hold the same post or a similar post on the same scale of pay a personal allowance equal in amount to the E.C.A. for which he would from time to time have been eligible, had it not been withdrawn. In case an increase of pay had been given but was insufficient to counterbalance the exchange compensation allowance, a reduced personal allowance sufficient to make up the deficiency was granted.

4. The E.C.A. is now drawn, if and when admissible, by (1) officers of the Indian Police Service appointed prior to 1906: (2) officers including High Court Judges protected from actual loss of emoluments by the orders referred to in para 3 above; (3) officers serving on contract in which E.C.A. forms a part of the terms of the contract.

caused comparatively few and unimportant fluctuations* had the Government of India (1) taken steps to limit, and gradually to diminish, their gold obligations, as they could have done with little difficulty even after the danger had become imminent; (2) not undertaken wars of aggression or conquest, nor added to the military strength, nor constructed defensive but unproductive railways from foreign capital borrowed on usurious terms; and (3) not added unnecessarily, unpardonable burdens like the exchange compensation allowance.

(e) Duality of Spending Authorities

Another patent factor for variations, usually on the side of excess of expenditure, though occasionally on behalf of economy, lies in the almost absolute power of the Secretary of State and of the India Office to suggest or sanction additional expenditure of almost every kind. We have discussed elsewhere the nature and extent of constitutional checks as regards Indian expenditure in the section dealing with **financial organisation.** Here we have only to note that on account of this almost unchecked authority to initiate, control and sanction expenditure, the India office has again and again thrust upon the Government of India additional and unwelcome charges, often with the acquiescence or connivance of the officers in India, but sometimes even against their unanimous opposition. And as these changes are made often at the eleventh hour, fluctuations between estimates and actuals are bound to be serious and unavoidable.†

(f) Unsuitable Fiscal Year

Lastly, the present practice of commencing the financial year from April 1st has nothing to recommend it in India except a too faithful imitation of the English system. In England, the practice has its justification not merely by right of prescription, but also because it is suitable to the commercial customs of the country.‡ The bulk of the revenues in England consists of tax-revenues, chiefly direct taxes, which are commonly paid in the first month of the calendar year, that is, at the close of the budget year when the large corporations or landlords have realised their profits or rents, and are able to pay the income and property taxes. Similarly the bulk of the payments by the State being made on quarter days, chiefly in the last quarter, the commencement of the financial year on April 1st is quite suitable in England. But in India the most important sources of revenue depend upon the character of the season, and that character

* Cp. Wacha's evidence before the Welby Commission, especially his reply to Jacob.

† The first Afghan war is a classic example on this point. Within the period here reviewed, the first budget speech of Laing and the speeches of Baring contain illustrations in point. See also the first speech of Wilson.

‡ Upto 1866-67 the Government of India's fiscal year commenced on May 1st and ended on April 30th. It was changed in 1867 to conform to the English practice. There is, besides, the *Fasli* year dating from the days of Akbar, and occasionally heard of even now in connection with the land revenue. Being a lunar year, it is liable to variations which makes it unsuited to be a fiscal period.

cannot be finally settled till about October. **It would, therefore, be of great benefit if the financial year is made to commence from October 1st,** and the budget presented, not, as now, a month **before** the commencement of the financial year, but a month **after.** All the important items of revenue can then be pretty correctly estimated, and so too the expenditure. The column for revised estimates may even be altogether dispensed with, since, with a fuller development of the system of Provincial Finance, and a better control and audit system, the final accounts in all branches of revenue and expenditure can be concluded by the end of the 1st week of October. The budget may then be prepared, and introduced about the end of October, to be finally carried before Christmas. If this reform is carried out, the financial procedure would at once be more simple and accurate. But this or a similar suggestion, though pressed before the Welby Commission, has not yet been accepted by the Government of India.

(g) Confusion between Capital and Ordinary Expenditure

Another alleged reason to explain the variations between the estimates and the accounts is **the frequent confusion between capital and other ordinary expenditure.** As a large proprietor or co-sharer in industrial concerns, the Government of India occupies a very prominent place among the progressive and civilised nations of the world. Thanks to these industrial concerns, they have to spend every year large sums to meet the ordinary, recurring, operating expenses, as well as to supply periodical renewal, replacement or extension of the existing concerns and new projects. Between these two classes of expenditure there is, indeed, an obvious difference, as important in theory, as it is convenient in practice. But in the absence of rigid, well-considered rules, it is possible to overstep the vague and somewhat shifting boundary. It happened, for example, during the viceroyalty of Sir John Lawrence, that large sums were decided to be, and were actually, spent on the construction of the barracks, which Sir G. Treveleyan and Mr. Massey both considered to be capital transactions, since they were to be met with largely from borrowed money. It was apparent, however, that the distinction between capital and ordinary expenditure did not quite correspond to the distinction between works constructed from borrowed funds and those from surplus revenues. And so eventually all these sums were treated as ordinary expenditure, thus profoundly affecting not merely the estimates but also the accounts of those years. Similarly, in later years, famine expenditure, war expenditure, and even exchange losses, were treated as extraordinary, which was not in the first instance charged to the ordinary revenues. The possibility of doubt or discrimination has occasionally led to confusion in the figures. One set of figures for a given year may give **net expenditure** not including the whole of the so-called extraordinary or capital expenditure; while another set might give **total** expenditure including all such items. For one year, again, the figures may have been compiled before the final directions were issued; while another set may give figures for the same year after giving effect to the final orders of competent authorities in doubtful cases. It is

enough to mention this to show how differences in the figures of the same year are brought about.

A cognate cause of variation may also be noticed here in passing. The transactions of the treasuries of the Government of India include a large number of items, on either side of the account, besides the revenues receipts and disbursements, on account of ordinary expenditure. There are, first of all, the various kinds of debt receipts and capital disbursements, such as the receipts on account of permanent loans, unfunded borrowings, Savings Bank deposits, or the railway, canal or other public works capital expenditure, which must all pass through the Government Treasuries, and which cannot but complicate, and sometimes confuse, accounts. Then there are various funds deposited with and administered by the Government, such as the Local Funds, Pensions and other Provident Funds, some Trust Funds etc. Lastly, perhaps the most important item now is the remittance account, which is no longer limited by the Home Charges, but is assuming more and more the character of banking and exchange transaction. Closely connected with this account by a series of laws and orders is the **Gold Standard Reserve Fund** Account and the Paper Currency Reserve Account. The total transactions of the Government of India run into hundreds of millions of pounds owing to these various receipts and disbursements. The magnitude of the transactions would, of course, be no excuse for the errors committed thereunder. But the variety of these transactions, coupled frequently with a want of accurate classification, may explain how variations in the figures for the same year may be brought about.

As would have appeared from the foregoing discussion, and as would become more increasingly apparent in the subsequent sections, **the true cause of such fluctuations** is to be found in the inexperience, if not the incapacity, of the officers of the Government of India in charge of the Finance Department. All the most important offices are reserved for—or are usually occupied by Indian civilians—men of liberal training in their youth, whom long service under dry and rigid rules has hardened and made impervious to all new ideas, and incapable alike of seeing or correcting their mistakes. Called upon to discharge duties requiring familiarity with immense and complicated accounts, dealing with questions of far reaching economic effects, administering a department demanding the fullest exercise of the most consummate statesmanship, they were neither accountants nor economists, nor great statesmen, whatever their merits as administrators may have been.

CHAPTER II

Expenditure on National Defence

In accordance with the general plan of this work, we shall discuss the defence expenditure of India under the following main divisions:—(a) general principles governing the cost of national defence; (b) the history of the Indian Military Expenditure, including an outline of the organisation of the Indian Army; (c) statistics of the cost of national defence in India, with a brief explanation of some specific details; (d) criticism and suggestions on a review of the policy and organisation of the military administration in India.

I. Economics of National Defence

Strictly speaking, military expenditure of every description, whether for actual fighting or even for preparation for active hostilities, must be pronounced to be wasteful and unproductive by the economist intent only on the ways and means of adding to the sum total of material welfare in a given community. True, the social organisation which enables mankind to carry on its productive activities in peace and security is, under our existing unhappy conditions, largely dependent on the equipment for defence, which every community must maintain, on pain not merely of hampering its productivity, but of being annihilated. But though a condition of production, this is not a cause or a factor of production. Even as a condition, it cannot be ranked with such influences as climate, for example, which are as indispensable as they may be incapable of modification by the ingenuity of man. The problem of defence or military preparedness is largely, if not wholly, a creation of man himself, of our modern commercial civilisation. By setting up the principle of self interest in a universal struggle for existence as the only motive force in life, we have necessarily multiplied the occasions for individual as well as national jealousies and rivalries, which, even if they do not always end in bloody conflicts, involve the maintenance of huge armaments as a sort of a guarantee of defence, as a sort of an insurance against war.* Created by man and his institutions, the difficulty can be obviated also by man. The thinking, if not the most effective, portion of civilised humanity seems to have perceived, even now, the utter, unspeakable waste of the preparations for war. Efforts are being made even now to provide a much stronger guarantee against this periodical lapsing into primitive savagery, which has militated so strongly against the peace and happiness of mankind. The Disarmament Treaties and Conferences are, indeed, only a beginning, —and a very defective beginning, at that—for the day when war shall have

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* This, at least, was the theory put forward by the ex-Kaiser and his Junkers, and the dominant military caste of Europe in the pre-war period. But War was not averted in spite of feverish and frantic preparations for a generation to "insure" against war. Nor was the protraction of the struggle, when it did break out, determined by the vaunted factor of purely military or fighting efficiency. The main thesis of the writers of the Norman Angel School also inclines to the same.

ceased to be. The motives and intentions of those participating in these pioneer efforts at ensuring the perpetual peace of the world, the conduct and utterances of the foremost figures in the drama of modern international life are not proof against the possibility of misinterpretation; nor are their methods and procedure such as unquestionably, unequivocally tend to the elimination of the use of brute force in settling the disputes between civilised communities. The League of Nations is anything but a Parliament of Man. Until quite recently Germany was excluded, and Russia is even now an outcaste. The United States affect unconcern, and the one time comrades in arms against Germany make no secret of their desire completely to dominate this their own creature. But faint and doubtful as these beginnings are, they are nevertheless beginnings in the right directions; and it is to be hoped the dream of all the noblest and the best amongst us for a warless world will shortly come true.

Pending however, the realisation of this dream, the fact must be noted that the expenditure on national defence is, by itself, unproductive and wasteful. It is unproductive, not only because all the labour and capital devoted to it are devoted to the genius of destruction. If material utilities, like battleships and aircraft, shells and cannon and armoured cars, military lorries and fighting equipment of all kind, including provision for the treatment of the wounded, are created, they are all waste from the point of view of promoting the real well-being of mankind. Men and money engaged in these occupations, even in time of peace, are so much deduction from materially productive energy. Hardly anywhere in the world, even in the richest countries, is the sum total of productive energy equal to the sum-total of consumption-energy or requirements; and the consequence of a high death rate, particularly in the yet untried wealth represented by the infant-world, of want and misery, of vice, disease and starvation, is but all too common among mankind.

This is common to all countries. The wastefulness of military expenditure is particularly prominent in subject countries like India, whose provision of defence is frankly the task of an outside agency. The little return in the shape of wages or salaries earned by those engaged in the occupations ministering to warfare,—not to mention the still more valuable though intangible return in the shape of superior knowledge and experience necessarily gained by officers in the higher command in the prosecution of their profession,—is denied to Indians in their own army. True, the large bulk of the actual soldiers,—the cannon fodder proper,—are Indians; but the wages and allowances they receive are hardly better than the pittance received by the lowest kind of labour in the most poorly paid trades in the country. This becomes all the more glaring by the contrast afforded by the emoluments to the non-Indian elements of the army in India. The latter, it has been officially admitted, cost per head more than four times as much as the Indian

elements.* There is, indeed, a scheme set afoot, in the last two or three years, for the gradual Indianisation of the Army in India; but, at the present pace, it will take 30 years at least before the entire army in all its ranks and departments is thoroughly Indianised, and the wages, salaries, pensions and other allowances are, if not saved, at least, kept in India by Indians entirely. A committee is also sitting, while these lines are going through the press, to consider the most effective means of providing for a proper military education and training in India.† But when due allowance is made for all these recent developments the outstanding fact must still be noted that, hitherto at least, the task as well as the benefits of the defence of India was practically a monopoly of the alien rulers of India, with the exception of the ordinary soldiers paid at rates which a tea garden cooly may consider unacceptable. The wastefulness, therefore, of the military expenditure in India is doubly onerous; and the fact that the peculiar history and social organisation of India have created certain classes in the country who consider military service their only proper occupation, and who will therefore serve in the army at starvation wages or less, rather than demean themselves by taking to any unbecoming line, may be an explanation of the Government of India obtaining the recruits at such low wages, but is in no way a palliation of the intrinsic wastefulness of the entire system.

We have, of course, spoken throughout this section of the wastefulness of defence expenditure. The evil of military expenditure maintained for aggressive ambitions or vain pursuit of prestige is, though far from being unknown in India, nowhere openly supported nowadays on economic grounds.

Let us consider this problem of the economies of national defence from another point of view. Taking the expenditure for defence under the two usual heads of expenditure (a) for war preparations and (b) that on actual fighting operations, let us include under the former all outlay on and for the pay, training and equipment of every fighting unit, whether of the Regular Army or of the Reserve. This forms the most considerable and regularly expanding item in modern budgets. Its scale is determined by considerations of military efficiency only.

Expert military and financial opinion is divided as regards the most economical methods for obtaining the best results from the point of view of military efficiency. Two rival principles have, until recently, held the field

*"The annual cost of an officer holding the King's Commission has risen from about Rs. 7,000, to about Rs. 11,000 in the case of British services, and from about Rs. 9,000 to about Rs. 14,000 in the case of the Indian services; of a British soldier from about Rs. 1,000 to about Rs. 2,500; of an Indian soldier from about Rs. 300 to about Rs. 650; and of the lowest class of followers from about Rs. 100 to about Rs. 300." Cp. *The Army in India and Its Evolution* (p. 183) published by Government, 1924. Sir Godfrey Fell gave the average cost per British soldier at Rs. 2,000 and of an Indian soldier Rs. 500 per annum in 1921 in answer to a question in the Indian Legislative Assembly.

† The so-called Indian Sandhurst Committee commenced taking evidence in the cold weather of 1925-26. Its importance may be judged in the Indian mind from the single fact that the leader of the party which had made uniform obstruction to government measures and policies its distinguishing feature consented to treat this committee as an exception and to serve on it himself.

in this respect. The United Kingdom with her colonies and the United States were, before the last war, the leading exponents of the system of Voluntary Enlistment; while the Continental countries have always been the champions of Conscription. Special advantages were claimed by each side as the particular justification of the system espoused by it. The advocates of Voluntary Enlistment * claimed that: (1) a standing army of professional soldiers, however small, is more efficient by its compactness and specialisation than a whole nation of soldiers, who are each trained for a few years and then sent home to forget the results of their military training, at no time a very agreeable occupation to the majority and particularly distasteful when it is forced. The short annual manoeuvres and service in the Reserve are unable to keep such an army upto that pitch of efficiency characteristic of a professional army. But the latter, it is urged by the advocates of the rival principle, is likely to prove dangerous to the peace of the commonwealth if it is too large, and unequal to its task if it is too small. The task of national defence in an hour of danger cannot be satisfactorily performed by mercenaries, even when they are nationals of the country endangered, not so much because of any want of patriotism, as the inability of their natural support, the country at large, to back them up properly. It would be unfair to expect the mass of the population in such a country, unaccustomed as they are to acting in concert with large numbers, to discipline and hardships, to handle arms at a moment's notice even if it is only to serve as auxiliaries. A professional army, moreover, tends to be recruited from the most undesirable elements of society. The majority of the professional soldiers would be unreliable as they are imperviously insensible to the nobler emotions. But if these arguments of the conscriptionist are weighty, his opponent can still find an answer in the (2) relatively greater cost of conscription to the community. The total army expenditure in Germany before the present revolution was higher than in England,† but the cost of individual soldier was much less in Germany. But these figures are delusive. They do not give any idea of the cost to the individuals taken from their legitimate economic employment, nor to the nation in the shape of the loss of working days productively employed. To bring out the total cost of the army under Conscription, we must add the average wages of the men engaged in produc-

* Adam Smith: Wealth of Nations; Adams: Science of Finance pp. 40, 56, 57, 80; Cliff Leslie: Essays 143; Bastable: Public Finance pp. 58, 72.

†The following statistics have been compiled from the Statesman's Year Book 1916. The Military Budget for 1914.

Country	Total Military Establishment.	Total Military Expenditure. £	Cost per soldier. £
France	846,168	48,146,388	56·9 nearly.
German Empire ...	806,026	60,429,705	75·0 „
United Kingdom ...	239,000	28,845,000	120·7 „
United States ... (1915-16).	106,774	21,438,829	200·75 „

This table shows the cost per army unit much larger in the countries of Voluntary Enlistment than in those of Conscription.

tive employment. "The military service postpones to a relatively very late period the productive use of the productive powers of the country...... The waste of skilled labour......is enormous......Half the time of the flower of population is thus unproductively spent," says Cliff Leslie, by no means an unsympathetic critic of the compulsory system.* But the advocates of compulsion consider the value of discipline and habits of regular life acquired during three or four years of compulsory military service as more than compensating for all the indirect loss arising from unproductive employment. "The Army acts as the most finished school of hygiene," says Price Collier in his sympathetic work on Germany. The Anglo-Saxon psychology is apt to undervalue these results, considering the habits of discipline and regularity as having been purchased at too great a cost if all individual initiative is to be lost thereby. Jerome K. Jerome's satire about the German love for order and respect for authority depicts faithfully the English idea of the value of discipline. But to an impartial observer the question may nevertheless occur whether, in a country which leaves its citizens to shift for themselves, it is always certain that the majority of the citizens will be Napoleons and not Bill Sykes. Besides, the argument about the loss of wages may be more definitely answered.† Cohn argues that the loss must not be computed at the average rate of wages, since the average wage-rate would have been much lower if the men engaged in military service were competing with the rest for industrial employment, not to mention the equally important fact that most of these men, if not in the army, would probably have been in the prison or the workhouse rather than in the factory. Allowance must also be made for waste due to strikes and lock-outs and other disturbances of the modern industrial machine.

Everything considered, **the compulsory system seems preferable to the voluntary**, not only because the unit cost of military defence is much lower than in the latter; but also because under conscription the nation can always command a much larger proportion of well-trained reserves, equal to any emergency of national defence. Under voluntary enlistment, Reserves are apt to be neglected, ill-trained, ill-equipped, inadequate, undisciplined and unreliable. The maintenance of large armies, moreover, inevitably brings in its train the establishment of large industries run most efficiently by the State. It would not do to trust to outside supply for military necessities in times of war. England furnishes a classic example of the danger which may overtake a country, not quite so rich or well-connected as England, if, in its moment of supreme need, it has to depend for food and fodder, for guns and shells on foreign supply. Works like the Krupps' become the national necessity; and afterwards supply an obvious refutation of the common delusion about the incapacity of the State to conduct industrial enterprises. Besides, large masses of men habitually living under strict regulations, prescribing their food and clothing, their amusements, occupations and exercise, render it ever so

* Cliff Leslie: Essays—143.

† See Cohn "Finance" Art. 142, 175, 181, 188.

much more easy to organise labour, and through labour the whole world of industry. If then we prefer conscription, it is not because it is symbolical of militarism, but rather because it is a foretaste of socialism.*

(*b*) The other branch of military expenditure—cost of fighting operations—is irregular and abnormal. When it occurs it may be met out of current revenues or from borrowed funds. The vast dimensions of modern war expenditure make an irresistible argument in favour of borrowing for a part at least of the cost of a war and the balance of historical tradition inclines the same way. But to burden unborn generations with a considerable load of unproductive debt without any compensating factor is an obvious injustice. Modern economic opinion is, therefore, in favour of meeting as large a share as possible out of the current revenues, which must consequently be raised to the highest bearable pitch, before having recourse to loans. The Bismarckian idea to make wars pay their own cost can no longer hold good under modern conditions as France is rapidly finding out. To be financially paying, the war must be against an enemy that even in defeat would be rich enough to pay an indemnity. And, of course, the vanquished under these circumstances would for ever prepare for "revenge" in spite of a steady impoverishment; and thereby keep up an increasing scale of wasteful expenditure for the victor on pretence of preparation.†

The peculiarity of modern military budgets in the leading countries of the world, *viz.* its irresistible tendency to a steady expansion, needs to be mentioned, if we are to understand properly the economics of such outlay. Apart from such factors as the interest and sinking fund charges on war debts, which grow after every war, but which threatened very soon to be converted into political factors owing to the growing volume of public opinion in favour of drastic measures like a Capital Levy to liquidate these burdens; and which, accordingly, pass out of the purely economic reasoning, there are reasons of technical efficiency and improvement which explain to a great extent the growing cost of modern armaments. This is an age of inventions; and every fresh invention makes the existing equipment obsolete and ineffective. Mechanical transport has rendered not only animal transport but the whole arm of cavalry practically useless. The aeroplane and the poison gas; the

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*This approval of the compulsory military service has, of course, to be modified by local considerations. England with her scattered possessions might find it difficult to ask her citizen soldiers to serve for two or three years in distant colonies. The existing industrial organisation of countries like England or the United States must also be consulted before such a scheme can be adopted. In India, such a system would in all probability be a failure, at least for some time to come, owing to the religious sentiments of a large section of the population. The industrial argument in favour of conscription adduced above will gain or lose according as the new German Social Democracy succeeds or fails. And the whole argument would be unnecessary if the League of Nations is able to control the local ambitions of the constituent States.

† The treaty of Versailles is a masterpiece of camouflage and a striking instance of the argument adduced in the text. French opinion, if truly represented by journals like "*L' Action Francaise*," seems to have lost equipoise, and is intent upon demanding and exacting the utmost that can possibly be obtained from Germany without utterly destroying her like Austria. But as the original Treaty is already a dead letter for all practical purposes by this time, we need hardly labour the point any more,

submarine and the torpedo-boat destroyer, and countless others have levied each their own toll in blood and money upon the rival nations of mankind; and hence the phenomenon of a steadily growing military budget in every country which is not permanently neutralised.

II.—A Brief History of the Indian Military Expenditure

The sketch attempted below is purely from a financial standpoint; questions of military organisation and distribution of armament and equipment, though inseparable, will be touched upon only in so far as they are inevitable for a correct understanding of the subject. The general discussion of military policy will be postponed to the last section in this review.

At the time of the Mutiny the Company's army consisted in part of European regiments, but largely of sepoy regiments officered by Europeans. The proportion between the two was:—British 39,500; Indian 3,11,038; Total 3,50,538. The disproportion between the Indian and the European troops came to be regarded as the efficient cause of the mutiny. Hence in all projects of military reform set on foot after the transfer of the government to the Crown, the first consideration was to increase the European element. A European soldier was relatively more costly than an Indian, not only because the pay of the former was higher, but also because of the higher pensions, housing, sickness, transport and other charges incidental to a European army in India. Accepting the principle of a considerable force to be permanently maintained in India, Lord Canning and his friends still contended for a local European army, which should be at the disposal of the Government of India absolutely, which would not be liable to be removed from India for the defence of the Empire at large. It would be more economical and more efficient; economical because to a very large extent the transport and other charges would be saved; and efficient because the experience gained by the officers and men will always be at the disposal of India. Finally, it was more than probable that the officers and men of such a local European force would come to identify themselves more closely with the people, and thus promote mutual understanding. Unfortunately for Lord Canning, imperial considerations prevailed. "The British Army," it was urged, "should be truly imperial and ought not to be divided into two parts serving different masters; that the spirit and traditions of the British Army could be preserved only by the periodical returns of the regiment to England." One would have thought the British Army in India, governed directly under the authority of the British Crown, would in no way be serving two different masters. It possibly may have been the case when India was governed by the East India Company. It was, nevertheless, resolved that the Company's European Army be transferred to the Crown and be amalgamated with the British Imperial Army.*

*Lord Canning was a warm supporter of the idea of a local European army in India; and he might quite probably have carried the day, but for the "White Mutiny" due to the protests of the European soldiers against being transferred to the service of the Crown, without their wishes in the matter being at all considered. Cp. His life in the Rulers of India Series, and also the History of India by Trotter. Vol. II.

The Royal Commission appointed to consider the question, advised that the European Army in India should consist of 80,000, and that the Native Army should not exceed more than 2 to 1 in Bengal and 3 to 1 in Bombay or Madras. In order further to render concerted action by Indian troops impossible, it was provided that the native regiments were to be formed as far as possible of units of different castes. In 1861, the British Army in India was 60,000 strong, but the strength was reduced in later years. After the amalgamation, and particularly since the introduction of the Short Service System in the Regular British Army by Lord Cardwell,* the British regiments came to India in their regular tour through the Empire, the object being to familiarise the officers and soldiers with the conditions of fighting in every part of the Empire. While in India, the troops are supposed to be lent to and paid by the Government of India, the rules of pay, pension, equipment being as nearly as possible co-ordinated.†

The native Indian Army was reduced, after the Mutiny, from 311,000 to 140,000 by 1864. But the European officers attached to each native regiment were at the same time increased. These officers were, in future, to be recruited from a new institution, called the Indian Staff Corps, created in 1861. Promotion in the Staff Corps was to be purely on lines of seniority, 12 years' service (afterwards reduced to 11) qualifying for captaincy, 20 years for majority, and 26 years for the lieutenant colonelship. After 5 years' service as lieutenant-colonel the brevet rank of colonel was open to every officer. At the same time that it provided officers for the native Indian Regiments, the Staff Corps was also to provide for posts in the Army Department, as well as for those Civil and Military posts which were open to soldiers‡. The great evil of the institution from a financial stand-point (and we may remark in passing that it was by no means free from objection even on the ground of military efficiency) was that it would add enormously to the pensions charge by the automatic, mechanical qualification it required for a certain pension being earned.

After the wholesale reorganisation, the Army in India enjoyed nearly 20 years of quiet, enlivened occasionally by frontier wars, in Bhutan or China, and in 1867-68 as far afield as Abyssinia. But it was on the whole an

* The Short Service System was much criticised, and strongly objected to by the Government of India. Cp. the evidence before the Welby Commission of Sir Henry Waterfield. Apropos it may be noted that non-official witnesses, like the late Mr. G. K. Gokhale, took the same view. Mr. Gokhale remarked in his evidence, "We pay for Short Service but the advantage of the system goes to England. The peculiar merit of the system is that it gives a large reserve. Our English Reserve is in England, and is not available to us." The system was not applied to Indian troops in India, who therefore had to be maintained on a war-footing.

† There was a bitter dispute between the Government of India and the War Office in respect of these Home Charges of British troops while serving in India. The official witness before the Welby Commission made out a strong case for the Government of India. See particularly the Evidence of Sir Henry Waterfield.

‡ Criticising the institution of the Staff Corps, Mr. Gokhale in his evidence before the Welby Commission remarked that "Every Officer in future could rely on getting Colonel's allowance if he lived and clung to the service till he had served 38 years." In 1895 he calculated that in a total number of 2,826 officers, there were 501 in receipt of Colonel's allowance,

era of peaceful development. In spite of the rigid and drastic economies determined upon after the Mutiny, and carried out by Lord Lawrence, the military expenditure did not show any diminution. In fact, a marked increase occurred during 1868-69 to 1870-71 owing to the large expenditure undertaken for military barracks and paid out chiefly from the ordinary revenues. Sir John Lawrence was the most powerful exponent of the policy of "masterly inactivity" on the frontier, which saved India from a disastrous Afghan War during his administration and that of his two immediate successors*. The policy of armed vigilance on the frontier keeping jingoism in chains, and resolutely refusing intervention in affairs which concerned us not, was reversed by the fatal blunder of Lord Lytton, who was encouraged and supported by the "Forward" School in England. Without going into the rights or wrongs of the Second Afghan War, we may at least remark that financially it was no less a disaster than militarily it was a catastrophe. The story of the full havoc of the Afghan War on Indian finance is told elsewhere. We need, here, only acknowledge the solitary instance of bare justice that England has rendered to India in all their connections of more than a century. The war like all wars with Afghanistan was fought for English interests and at the instance of English statesmen. England under Gladstone's regime agreed to contribute £ 5,000,000 to the costs of this war (over £23,000,000). This was hailed as a manifestation of the English sense of justice by a people accustomed to the imperialistic indifference of the Anglo-Indian statesmen of the Lytton or Strachey stamp.'

The experience of the Afghan War led to the appointment of the Simla Army Commission of 1879 under the Presidency of Sir Ashley Eden. That commission was divided as regards the policy to be pursued on the frontier, and unanimous on military reform proposals. They suggested (1) a reduction in the number of cavalry and infantry regiments so that the total strength of the Army (65,000 British and 1,35,000 Indian) remained undisturbed; (2) the amalgamation of the three Presidency Armies, which was prepared for by the consolidation of the Military Accounts Department under one Accountant-General in 1864 and of the Remount Departments, was finally accomplished in 1893.

Between 1880, when Afghan territory was evacuated, and 1885, when Penjdeh was occupied, the only military incidents of note were the Egypt campaign of 1882 and Suakim expedition of 1885.† In the latter year, under the 'diplomatic' Viceroy Lord Dufferin, Russophobia became extremely acute. A large army was mobilised, but peace was preserved. It was fancied, however, that danger had not finally disappeared; and, therefore, a costly scheme of Special Defence Works on the frontier and in the various

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* On the question of Frontier policy Sir J. Lawrence and Sir Bartle Frere represented each the two opposite schools, cp. "Making of a Frontier" Durand.

† For a list of Indian Military Expeditions from 1859 to 1895, see Evidence Vol. II, pp. 350 and 364 of the Welby Commission. See also the September number (1922) of the Modern Review, article by Prof. C. N. Vakil.

ports of British India was sanctioned† and 10,600 men were added to the Army, the British element being increased beyond the suggestions of the Simla Army Commission. The increase was calculated to cost two million sterling, and showed a strength, when completed, of 73,602 British officers and men and 1,53,092 Indians.* The **imperial service troops** also came into existence about the same time, but the whole cost of this body was borne by the chiefs who raised them, with the exception of the charges of inspection, which fell on the Government of India. The Army thus increased was frequently lent to the British Government when not engaged in conquests for the Government of India.‡

The effort India made to help the British Empire in its supreme hour of need during the European war of 1914-18 may be most succinctly, though quite inadequately, summarised in the following figures. On the outbreak of the war, the Indian Army numbered 194,000 Indian ranks to which must be added 791,000 recruited during the war years. Of this total combatant strength of 985,000, 552,000 were sent overseas to fight the Empire's battles. Of the non-combatants 391,000 were sent overseas. Of these 36,696 lost their lives, and 69,898 were casualties of all kinds.

The Indian Army as organised to-day has no territorial reserve, or a second line of defence. As in the days of the Moghuls and the Mahrattas and their predecessors away back in history, India depends on a single army, which, if defeated, will leave no defence for the country. The Government of India are not unaware of this fundamental weakness in their military organisation. In their moment of dire peril they did try, in 1917-18, to make an experiment with the so-called Indian Defence Force, six units of 1000 men each, afterwards raised to 12,000, out of men aged 19-30 years, and from classes

* Lord Dufferin formulated in 1885 and Lord Randolph Churchill accepted the policy of "buffer states" for the defence of the frontier and regulation of the Indian military expenditure. But it was broken the very next year in connection with Burma, which was too pulpy to serve as a good buffer. See Lyall's Life of the Marquis of Dufferin and Ava.

† For expenditure on Special Defence Works, cp. table of military expenditure below.

Mr. Vakil gives the following figures of the cost of extra-frontier expedition charged to India :—

	£		£
Perak...	41,000	Burma	4,705,000
2nd Afghan War ...	12,516,000	Suakim	231,000
Egypt	1,250,000	World War	Rs. 137,70,00,000

These figures obviously understate the case. The 2nd Afghan War figures, for example, do not include the cost of the Frontier Railway built for military reasons. See the figure ante. p. 49. The figures for the World War do not include the free contribution of 150 crores, nor the cost of the 3rd Afghan War estimated at Rs. 38·9 crores, nor the permanent increase in the regular charges caused by the War.

‡ Between 1895 and 1920 there were the Suakim Expedition of 1896, India paying all the ordinary charges; Mombassa Expedition of the same year of which the British Government bore all the costs; the Transvaal and Boer War loan of troops for which India bore the whole cost; and the present War, in which India bore all the ordinary charges, besides making a gift of £100+£45 million, and adding 100% to the total normal military Budget.

from whom ordinarily men are not recruited for the Army. But the response was very meagre, for these classes had no military traditions, and no previous connection with the Army. They also objected to 90 days' continuous preliminary training while their set purpose was little better than that of the police. In reviewing the history of that experiment, the Esher Committee write :—

"In forming our conclusion we have been impressed by the fact that the highest military authorities in India accept the principle of a national defence force, and are of opinion that it is one to be encouraged. They have told us, however, that we must not shut our eyes to the practical difficulties." They add.—"Not only have we to bear in mind risks that we run in organising a force that may be used against us in one way or another, but we have to create or revive the necessary military qualities in a collection of different races who are striving under our control to evolve a common nationality, and with it the ideal of national participation in the defence of their country..............We do not want to run more risks than are necessary; we do not want to interfere unduly with religious or local customs and ideals; and we do not want the country generally to get tired of what is admittedly an experiment before the desired result is obtained." (Page 12, part VI of the Report.)

Hence they proceed to recommend the creation of a Territorial Force, without impairing the efficiency or interfering with the recruitment of the Regular Army, or reducing its cost, on the basis of voluntary enlistment for four years and service in India, out of men aged 18–30, with special encouragement to University Corps. These should be paid at rates now allowed to Indian rank and file. On this basis they would like to raise, as a first experiment, a force of 12 units only, not more than 12,000 men in all. Provision has been made by the Auxiliary Force Bill of 1920 for the annual embodiment of men for a short period of service in successive years; but the results to date are not satisfactory.

After the war, and as a result of the experience gained during the struggle, particularly in Mesopotamia, it was considered necessary and imperative to reorganise the Army in India. A committee presided over by Lord Esher was appointed for the purpose, in 1919 :—

"1. To inquire into and report, with special reference to post-bellum conditions, upon the administration and, where necessary, the organisation of the Army in India, including its relations with the War Office and the India Office, and the relations of the two offices with one another.

2. To consider the position of the Commander-in-Chief in his dual capacity as head of the Army and member of the Executive Council, and to make recommendations.

3. To consider and report upon any other matters which they may decide are relevent to the inquiry.

The Report:—The Report was submitted to the authorities in May 1920 and published some months later. Among the outstanding recommendations in the mass of detailed proposals scattered through more than 100 foolscap pages and nowhere succinctly outlined are the following :—

Diminution of the detailed control exercised by the India office. Membership of the India Council by an officer of high military rank to be abolished. The Military Department Secretary at the India Office to be a Deputy Chief of the Imperial General

Staff, the Chief, either directly or through him, being the sole responsible military adviser of the Secretary of State.

The Commander-in-Chief in India to be the sole military adviser of the Government of India, and to be the administrative as well as the executive head of the Army, the Army Department and the Headquarters Staff being consolidated under him.

The Defence Committee set up in India during the war to be continued; a Military Council to be established; and decentralization to be promoted by the formation of four commands, each under an Army Commander graded as a general officer commanding-in-chief.

Liberal and sympathetic treatment of all ranks in the Army in India, and the removal of such grievances as are shown to exist.

Existing services to be reorganised, and new services to be developed and equipped.

The publication of the report evoked a storm of criticism in India, which protested *in toto* against the main principle underlying it, namely that the Army in India was not for the defence of India, but must be considered in relation to the general defence of the Empire. So strong was this criticism that the Government appointed a representative committee of the Legislature, who focussed their opinion in a report which embodied the following resolutions :—

This Assembly recommends to the Governor-General in Council:

I. (*a*) That the purpose of the Army in India must be held to be the defence of India against external aggression and the maintenance of internal peace and tranquillity. To the extent to which it is necessary for India to maintain an army for these purposes, its organisation, equipment and administration should be thoroughly up to date, and, with due regard to Indian conditions, in accordance with present-day standards of efficiency in the British army, so that when the Army in India has to co-operate with the British Army on any occasion, there may be no dissimilarities of organisation, etc., which would render such co-operation difficult. For any purpose other than those mentioned in the first sentence, the obligations resting on India should be no more onerous than those resting on the self-governing dominions, and should be undertaken subject to the same conditions as are applicable to those *dominions*.

(*b*) To repudiate the assumption underlying the whole Report of the Esher Committee:—

(1) that the administration of the Army in India cannot be considered otherwise than as part of the total armed forces of the Empire, and,

(2) that the military resources of India should be developed in a manner suited to Imperial necessities.

Overseas Service :—II. This Assembly recommends to the Governor-General in Council that the Army in India should not as a rule be employed for service outside the external frontiers of India, except for purely defensive purposes, or with the previous consent of the Governor-General in Council in very grave emergencies, provided that this resolution does not preclude the employment on garrison duties overseas of Indian troops at the expense of His Majesty's Government, and with the consent of the Government of India.

Organisation:—III. This Assembly recommends to the Governor-General in Council that the absence of full responsible Government in India, the differences in conditions between India and England, and the provisions of the Government of India Act do not warrant differentiation in the army administration between India and England

in regard to the ultimate control of, and responsibility for, the defence of the country; and that in view of the desirability of assimilating the system of administration in India to that in the United Kingdom, which has been arrived at after prolonged experiments, and the desirability of emphasizing the principle of the ultimate supremacy of the civil power, it is essential that the Commander-in-Chief should, without prejudice to his official precedence, cease to be a member of the Governor-General's Executive Council, and that the Portfolio of Defence, including supply, should be entrusted to a civilian member of the Executive Council, assisted by an Army Council including the Commander-in-Chief and other high military experts and a certain number of civilians, more or less on the model of the Army Council in England.

Supply:—IV. This Assembly recommends to the Governor-General in Council that if the Portfolio of Defence including supply is not entrusted to a civilian member of the Executve Council as recommended above, the proposal of the majority of the Esher Committee for the creation of a separate department for Production and Provision under a member of the Executive Council be not accepted, and that the proposal of the minority, namely that the responsibility should be entrusted to a Surveyor-General of Supply who should be a civil member of the Commander-in-Chief's Military Council, be accepted. This would seem to have the merit of being more logical and economical and would have the further advantage of avoiding the addition of a civil member to the Executive Council in connection with military administration.

Senior Appointments:—V. This Assembly recommends to the Governor-General in Council that:

(*a*) The Commandar-in-Chief and the Chief of the General Staff in India should be appointed by the Cabinet on the nomination of the Secretary of State for India in consultation with the Government of India and the Secretary of State for War.

(*b*) In the case of Army Commanders who are officers of the Indian Army, the appointment should be by the Secretary of State for India on the nomination of the Government of India.

(*c*) Appointments to the offices mentioned against Serial Nos. 3, 6, 7, 8, 10, 12 (Report, Schedule annexed to Section VI) should be made in the manner proposed for Army Commanders.

(*d*) The appointment of Secretary to the Military Department, India Office, should be made by the Secretary of State on the recommendation of the Government of India and after advice obtained from the Chief of the Imperial General Staff. He should *ex officio* have the status of a Deputy Chief of the Imperial General Staff, and should have the right of attending the meetings of the Army Council when questions affecting India are discussed. He should not be under the orders of the Chief of the Imperial General Staff.

C. I. G. S:—VI. This Assembly recommends to the Governor-General in Council that the Commander-in-Chief's right of correspondence with the Chief of the Imperial General Staff should be subject to the restriction that it does not commit the Government of India to any pecuniary responsibility or any line of military policy which has not already been the subject of decision by them; copies of all such correspondence at both ends being immediately furnished to the Government of India and the Secretary of State for India.

Indian Officers:—VII. This Assembly recommends to the Governor-General in Council—that the King-Emperor's Indian subjects should be freely admitted to all arms of His Majesty's Military, Naval and Air Forces in India and the Ancillary Services and the Auxiliary Forces, that every encouragement should be given to Indians including the educated middle classes, subject to the prescribed standards of fitness, to enter the commissioned ranks of the Army, and that in nominating candidates for the entrance examinations, unofficial Indians should be associated with the nominating authority; and in

granting King's Commissions, after giving full regard to the claims to promotion of officers of the Indian Army who already hold the commission of His Excellency the Viceroy, the rest of the commissions granted should be given to cadets trained at Sandhurst. The general rule in selecting candidates for this training should be that the large majority of the selections should be from the communities which furnish recruits and as far as possible in proportion to the numbers in which they furnish such recruits.

Indian Military College :—VIII. This Assembly recommends to the Governor-General in Council that as soon as funds be available, steps should be taken to establish in India a Military College, such as Sandhurst, and the desirability of establishing in India training and educational institutions for other branches of the Army should be steadily kept in view.

Pay :—IX. This Assembly recommends to the Governor-General in Council that, in the interest of economy and in view of the likelihood of the growth of the Indian element in the commissioned ranks, it is essential that before vested interests arise, the pay of all commissioned ranks in all branches of the Army should be fixed on an Indian basis, with an overseas allowance in the case of British Officers, and with a similar allowance for Indian officers holding the King's Commission, when serving overseas.

Territorial Army :—X. This Assembly recommends to the Governor-General in Council that in view of the need for the preparation of India to undertake the burden of self-defence and in the interests of economy, it is essential that a serious effort should be made :—

(*a*) To organise and encourage the formation of an adequate Territorial Force on attractive conditions.

(*b*) To introduce in the Indian Army a system of short colour service followed by a few years in the reserve.

(*c*) To carry out a gradual and prudent reduction of the ratio of the British to the Indian troops.

XI. This Assembly recommends to the Governor-General in Council that officers in the Indian Territorial Force should have the rank of 2nd Lieutenant, Lieutenant or higher rank, as the case may be, and that no distinction should be made between the Indian Territorial Force and the Indian Auxiliary Force in respect of the authority which signs the Commissions, and that officers in these two Forces should take rank *inter se* according to dates of appointment.

Exchange of Officers :—XII. This Assembly recommends to the Governor-General in Council that no proposals for interchange of officers, between the British and Indian services should be carried out unless the following conditions are satisfied :—

(*a*) That the cost to Indian revenue should not be thereby appreciably increased.

(*b*) That such proposals should not be allowed to interfere with a steady expansion in the proportion of King's Commissions thrown open to Indians in the Indian Army.

(*c*) That the interchange of British officers should, in no way, affect the control of the Government of India over the entire Army in India.

Economy :—XIII. This Assembly recommends to the Governor-General in Council that, having regard to the creation of two additional commands in India, the Government of India do consider the expediency of reducing the size of the administrative staff at Army Headquarters.

XIV. This Assembly recommends to the Governor-General in Council that, as soon as the external and internal conditions of India permit, the Governor-General in Council should, with the concurrence of the Secretary of State, appoint a Committee adequately representative of non-official Indian opinion for the purpose of examining and reporting upon :

(*a*) The best method of giving effect to the natural rights and aspirations of the people of India to take an honourable part in the defence of their country and prepare the country for the attainment of full responsible government which has been declared to be the goal of British policy.

(*b*) The financial capacity of India to bear the burden of military expenditure;

(*c*) Her claim to equality of status and treatment with the Self-Governing Dominions; and

(*d*) The methods of recruitment to the commissioned ranks of the Indian Army.

XV. This Assembly recommends to the Governor-General in Council that Anglo-Indians should be included in the terms " Indian subjects " or "Indians" wherever such terms occur in the above resolution.

These resolutions were subject to full debate in the Imperial Legislative Assembly in the course of which Resolution No. 3 proposing the creation of a Port-folio of Defence was negatived.

Resolution 4 was carried with the amendment that the words from " if the port-folio " down to " recommended above ", be omitted.

On Resolution No. 7 an important amendment was carried by a bare majority and was accepted as a substantive proposition in the form given above.

Education for the Army.—Since the end of the Great War several steps have been taken to provide educational facilities for Indians who wish to enter the Army. The **Royal Indian Military College** at Dehra Dun, which was opened by H. R. H. the Prince of Wales in February 1922, is designed to give the preliminary training for entry into the R. M. C. Sandhurst, and is the result of the Government having accepted a resolution by the Legislative Assembly to the effect that such an institution should be provided. The **Kitchener College** in the new Capital, which, like the college at Dehra Dun, will be financed out of the military budget, is intended to give a sound general education under military discipline. Admittance to it will be obtained by nomination open to the sons of Indian officers and others of a recognised fighting class enlisted in the Army of a decidedly higher status than the rank and file and belonging to a family of local influence and position. It is probable that in time this college will become the chief, if not the only, channel for direct Indian commissions as Jamadars.

It is also proposed to build, with money from the King-Emperor's Patriotic Fund, schools of the Anglo-Vernacular type for the education of Indian soldiers' sons. Three schools of this kind have been planned for the Punjab and the United Provinces.

In the recruitment and staffing of the Army in India the most acute distress or difference of opinion has been caused by two questions of considerable importance. The officering of the Indian Army in the superior ranks was, before the European War, almost wholly a European monopoly, though the Viceroy's commissions used to be granted to Indians, with a lower status and limited authority. Since the War and as a consequence

thereof, Indians have been made eligible for the King's Commission in the Indian Army by the ordinary process of regular qualification of a cadet through a recognised Military College, either the British Sandhurst or the Indian Sandhurst when one is created out of the existing Prince of Wales Royal Indian Military College at Dehra Dun (1921), or through some process of special seletion or distinction. To begin with, only 10 vacancies were reserved at Sandhurst every year for Indian cadets. It is to be hoped the Indian Sandhurst Committee now in session (1926) will expedite the Indianisation of the officer class in the Indian Army, though at the present pace of Indianisation of 8 units it will require a generation or more to Indianise completely the army of India.

III.—The Naval Defence of India and its cost

By way of completing the historical survey of the problem of national defence in India, particularly from the standpoint of its cost, let us notice here the organisation of and expenditure on the naval defence of India. The East India Company maintained a Navy from its earliest period, and specifically christened the force, the *Indian Navy*, in 1830. Abolished for reasons of economy and efficiency in 1861, it was resuscitated in 1892, under the name and style of the *Royal Indian Marine.* This was the only representative of a naval force at the disposal of the Government of India, until February, 1926, when the Viceroy, Lord Reading, announced the institution or resurrection of a Royal Indian Navy for the maritime defence of India, by the conversion of the Royal Indian Marine. In the absence of a Navy of their own, the Government of India were paying, since 1869, a contribution to the British Admiralty in consideration of the protection received from the Imperial Navy by India. Since 1896-7 the contribution was raised to £100,000 per annum,* in return for which certain ships of His Majesty's Navy were placed at the disposal of, if not under the orders of, the Government of India. The duties of the Royal Indian Marine, while it lasted, were to transport troops and stores, to guard convict settlements, to help suppress piracy, to conduct marine surveys, and to protect Indian ports, though this last mentioned duty was by no means easy to perform by the obsolete vessels of this body, as the exploits of the German Cruiser **Emden** in the first months of the European War but too clearly proved. The new Navy is intended to be a sea-going force from the beginning, with special excellence in gunnery, minesweeping, and harbour defence, besides seamanship. The only extra duty imposed on this force, in addition to those hitherto discharged by the Royal Indian Marine, would be the training of the personnel for war service on the high seas, and the organisation of the defence of the ports in

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*The total cost of naval defence and protection to India is not, however, restricted to the £100,000 mentioned above, which is the cost of maintenance of H. M.'s vessels in the Indian seas. There is in addition an item of £3,400 on account of the Indian Troop Service, and another £64,000 on account of the suppression of the Arms Traffic in the Persian Gulf, or a total of £167,400, or Rs. 25 lakhs in round terms. Compare with this the naval contribution of Australian Commonwealth (£49,100), of New Zealand (£100,000) of South Africa (£85,000) and of Canada (£10,800) and Newfoundland (£3,000). Canada and Australia have their own navies. Cp. Indian Year Book 1926, p. 268.

India. The estimated annual cost of this Indian Navy, consisting at first of 4 sloops, 2 patrol vessels, 4 trawlers, 2 survey ships and 1 depot ship, is Rs. 63 lakhs besides the lighting cost and the cost of the military launches. King's Commissions are to be given to Indians and Britishers alike in this Navy, and Indian cadets are to be drafted in the Navy from the Dehra Dun College, the new recruitment being 3 every year, in the aggregate. In war time the necessity of preserving the unity of command has been made responsible for the suggestion that this Indian Navy should go automatically under the command of the officer commanding the East Indies Squadron of the Royal Navy; and in peace time, the position of the Naval Chief would be similar to that of the chief of the Royal Air Force in India; *i. e.* subordination to the Commander-in-Chief in India in the latter's capacity of India's Minister of Defence, with a right of direct access to the Viceroy for purposes of consultation on important questions relating to the Navy. In Canada and Australia, this question of the responsibility, both in peace and in war, of the local Navy has formed the most acute point of difference, the extreme nationalists demanding a complete nationalisation of the colonial navy in command as well as in responsibility, while the Imperialists have contended for a unity of command at least in times of active hostilities. The same question of constitutional importance is not unlikely to cause a like difference in India when the Indian Navy attains to some respectable dimensions.

IV.—The Strength of the Army in India

The total of the authorised establishments for the Army, exclusive of Aden and the Persian Gulf and of Reservists, on 1st April 1926, was 2,82,735, against 2,85,344, on 1st April 1925, and 3,11,975 on 1st April 1922.

This was made up as follows :—

British Army: Officers with King's Commission (including 79 Indians) 6,987; British other ranks, 61,599

Total ... 68,586

Indian Army: Indian Officers with

Viceroy's Commission ...	4,763
Indian other ranks ...	1,59,211
Clerks and other civilians ...	8,834
Followers	41,350
Grand Total ...	2,24,158
	2,82,735 (sic.)
Indian Reservists	42,396
	3,24,131

This is made up of :—

I. The British Army; these units, both cavalry and infantry, are part of the regular British Army, and they come to India in the course of their regular tour of the Empire, which extends over 16 years in the case of an infantry battalion, and 14 years in the case of a regiment of cavalry. There are at present 5 British cavalry regiments in India, consisting of 27 officers, and 571 other ranks. Of the infantry there are

at present 45 battalions in India, consisting each of 28 officers and 882 other ranks. There is an Indian platoon, since 1921, attached to each British infantry battalion consisting of 1 Indian officer and 41 other ranks. In addition, there are artillery units, and engineer services, almost wholly British in the combatant ranks, though in the latter there is now an Indian element. The Royal Air Force in India is a part of the Royal Air Force of the United Kingdom, whose ranks are manned by Britishers, with Indians only in the technical section of artificers and mechanics. Of the total strength of 2,113, there are 218 officers, 1,757 British non-commissioned officers and men, and 138 Indian mechanics and artificers. The Royal Tank Corps of Armoured cars is in addition to all these.

II. *The Indian Army.* This consists at present, of:—

21 Cavalry regiments, made up of 14 British and 19 Indian officers, and 512 Indian non-commissioned officers and men in each regiment.

20 Infantry regiments consisting of 106 battalions, each with 12 British and 20 Indian officers, and 742 other ranks;

4 Pioneer Regiments (including the Hazara Pioneers), each with 12 British and 16 Indian officers, and 720 other ranks;

10 Gurkha Regiments, each with 13 British and 20 Indian officers, and 921 other ranks.

Reserves for these units, which are maintained on a war footing, have to be sufficient to provide for an actual shortage on mobilisation as well as for the maintenance of the mobilised unit at full strength for the first 8 months after mobilisation. These amount to 42,396 officers and men.

Reserves, in the sense in which they are known to European military organisations for national defence, are practically unknown in India. There is constituted, since 1920, an Auxiliary Force, consisting of Europeans residing in India, and having all the several arms which a regular army has, with medical and veterinary corps of their own. Their rôle is local defence, and their training is also a local concern, though they are paid regular pay during their period of training, and are entitled to a bonus on the completion of the scheduled period of annual training. The only Indian reserve, at all worth the name, is the so-called Indian Territorial Force, which is intended to be a second line of defence and a support to the Regular army; but the members of the Territorial Force are liable to overseas service under certain conditions, though their main task is home defence. The Force consists of University battalions, recruited from the staff and students of the Indian universities, and provincial battalions, originally 7 but now raised to 20, recruited from those classes of the people whose military ambitions had hitherto received not all the scope that could be desired.

In addition, there are the Supply and Transport Services, the Ordnance, Medical and Veterinary Services, Remount Department, Signal Service and the Frontier Militia which are known as Civil Troops.

V.—The Inchcape Committee and Military Retrenchment in India

The Retrenchment Committee presided over by Lord Inchcape made a thorough and painstaking review of the Indian expenditure on national defence, making a base of comparison with the figures of the last pre-war year, *viz.* 1913-14. They found the total, net, military expenditure to have increased from Rs. 29'84 crores (actual) to Rs. 67'75 crores (Budget Estimates for 1922-23), and they attributed the increase to any one or more of the following five main causes:—

"(1) The general rise in prices; (2) the enhanced rates of pay granted to all ranks; (3) improvements in the standard of comfort of the troops; (4) additions to and improvements in equipment, &c. and the adoption of a higher standard of training; (5) the increase in non-effective charges from Rs. 5 crores before the war to Rs. 9 crores at the present time".

The Budget Estimates of 1922-23, the Committee were aware, did not represent the full cost of the Army &c., which was represented at a rather low figure owing to the uncertainties of the cost of the Waziristan operations, as also on account of the low purchase of stocks, under-manning of the establishments, and the inflated nature of the extraordinary receipts. It is unnecessary to reproduce, even in summary, the detailed findings and recommendations of this Committee of businessmen impressed with the supreme necessity of balancing the Budget; but we may select two or three cases illustrative of the extravagance or misconception of the very object of this kind of public expenditure, to give the reader an idea of the cost of national defence in the country. The Inchcape Committee, be it noted in passing, and as a sort of a preface, did not consider themselves competent to discuss questions of fundamental policy; nor did they travel beyond the existing situation, in the interests of public economy generally, on such issues as the adequacy or otherwise of the rates of pay, pensions, and other emoluments allowed to the Army in India; so that their Report is of interest only in its minute search for specific instances of possible retrenchment.

On the main question of the total strength of the Army, in the aggregate number of regiments as well as in the total strength of each regiment, the Committee found, for example, that in the case of the British infantry in India, the strength was reduced on mobilisation for war, as compared with the normal peace establishment of the unit. "We do not think," they observe, "there is any necessity for maintaining a peace establishment on a much higher scale than the war establishment. In England and elsewhere the policy is to maintain peace cadres about 25 per cent. below the war establishments, which are capable of rapid expansion in war, and a similar practice obtains in certain sections of the army in India .... We recommend that the peace establishment of British battalions should be fixed at 884 British Other Ranks, (against 1,012 then obtaining) the number required for the War establishment, plus a margin of 5 per cent. to provide

for men who may be absent through sickness &c." In the 45 British Infantry Battalions in India, this recommendation would make a saving of 5,760 men, who cost, per head, Rs. 2,500 per annum in round terms, and would thereby effect a saving of Rs. 1,44,00,000. The Indian ranks were similarly recommended to be reduced from 826 peace strength to 766 war strength as a normal strength of the unit; and as there were 80 active Indian battalions, this would mean a saving of 4,800 Indian ranks, or a money saving, at the rate of Rs. 650 per each Indian soldier, of Rs. 31,20,000 per annum, which, with their proposals for further reductions in the training battalions, the committee calculated would aggregate to Rs. 42 lakhs per annum. With a suitable scheme of Reserves, the Committee further felt, the war establishment itself might be reduced by 20 per cent. for the normal strength of the army, making a net further saving of Rs. 63 lakhs per annum. Add Rs. 74 lakhs of savings in the cavalry by the demobilisation of three British cavalry regiments in India, and another 43 lakhs in the artillery, and we get a total aggregate saving of Rs. 3·66 crores by reduction of inflated numbers only.

Of extravagance in the actual administration in the military department, the following illustration is perhaps as good as any that can be found. "In the Transport Service mechanical section, of the total stock, excluding motor cycles, of 3,369 vehicles, only 1,163 or about a third, were fit for active service at once, while 404 more were capable of being utilised for active service after some repairs, leaving 1,792 vehicles as absolutely useless because they were obsolete. "We consider" observe the Committee, "there is no justification for providing the stock of vehicles which the military authorities estimate is required, (3,511) and we recommend that while the present financial conditions obtain, the authorised establishment of motor vehicles, including reserves, should not exceed 1,600 vehicles excluding motor cycles. The holding of large excess stocks must necessarily result in increased costs for maintenance, garage accommodation, interest on capital, depreciation and personnel, and in addition there is a tendency to use the vehicles, if available, for non-essential purposes. In this connection, we examined the records of one motor transport company, and found..in many cases the daily loaded mileage run by individual lorries was only 2 to 4 miles with light loads of about 5 maunds."

The Committee, thereupon, recommended that in place of the 261 motor cars then maintained by the military authorities, that establishment should be limited to 150 cars, and further, that each car should be expected to do about 9,000 miles per annum. As for the cost of motor cars, the military authorities gave Rs. 4,200 per annum as the normal cost of running a Ford car on a mileage of 9,600 per annum, including petrol, lubricants, tyres and repairs, but exclusive of interest on capital, depreciation, and personnel. This they frankly considered to be excessive. The cost of transport, it may be added, had increased from Rs. 1·93 crores in 1913-14 to 6½ crores in the Budget Estimates of 1922-23; and the Committee's recommendations were expected by them to effect a saving of Rs. 1·15 crores in round terms.

Another instance of gross mismanagement and unpardonable extravagance the Committee brought to light was the case of the huge stocks held in the several branches of the military services. On the first of April, 1922, the army stocks of material were estimated to aggregate in value Rs. 20'14 crores, of which the Ordnance Stores alone amounted to Rs. 14 crores on the 31st December 1922. Apart from the possibility of severe depreciation, in a single instance in the Ordnance Department, the Committee were informed that on the surplus stores set apart for disposal, the Department expected to realise from the sale proceeds Rs. 9 lakhs only for material which had origina'ly cost Rs. 50 lakhs. The mischief of these huge stocks of stores held in the several departments goes much deeper. It means a *pro tanto* loss of interest on the capital locked up in these stores, which, at 5% per annum, would mean a crore on the above estimate. There is, further, the danger of depreciation through a fall in prices, which, in a period like the post-war age, must necessarily be rapid and considerable. Finally, because large stores are available, a direct, though imperceptible, incentive is provided for extravagance to the officers concerned.

After due consideration of all the itents, the Committee unanimously recommended total retrenchment of Rs. 13'95 crores on the Budget estimates for 1922-23, which, of course, would not be accomplished all at once, but which, when achieved would mean a substantial saving to the Government of India, and a substantial relief to the Indian tax-payer. The Committee, however, were perfectly clear that the recommendations made by them did not by any means exhaust the avenues for retrenchment, particularly as they had refrained from considering questions involving considerations of the fundamental military policy. "We do not, however, consider," they point out in conclusion of this section of their Report, "that the Government of India should be satisfied with a military budget of Rs. 57 crores, and we recommend that a close watch be kept on the details of military expenditure with the object of bringing about a progressive reduction in the future. Should a further fall in prices take place, we consider that it may be possible, **after a few years, to reduce the military budget to a sum not exceeding Rs. 50 crores, although the Commander-in-Chief does not subscribe to this opinion. Even this is more, in our opinion, than the tax-payer in India should be called upon to pay, and, though revenue may increase through a** revival of trade, there would, we think, still be no justification for not keeping a strict eye on military expenditure, with a view to its further reduction."

The table below shows how far they have tried to give effect to these recommendations during the three or four years that have elapsed since the Report of the Inchcape Committee.*

* In a Memorandum presented to the Inchcape Committee by the present writer on behalf of the Central Labour Board, Bombay, it had been suggested that the expenditure on Defence could be reduced to Rs. 45 crores net all told, including Rs. 5 crores for the Navy and the Air Force, and Rs. 15 crores for the several reserves. The standing army would cost, on that basis, Rs. 15 crores, and the Home Charges Rs. 10 crores with a liability to rapid further reduction.

VI.—Statistics of Indian National Defence Expenditure

(In thousands of Rupees)

Year.	Total Army.	Marine.	Military and Special Defence Works.	Receipts.	Total Expenditure.
	Rs.	Rs.	Rs.	Rs.	Rs.
1859-60 ...	18,46,02	92,03	......	1,11,19	19,36,05
1860-61 ...	15,83,89	1,04,87	......	41,04	16,47,67
1865-66 ...	13,90,94	57,74	......	92,72	13,53,96
1870-71 ...	16,07,48	75,97	......	1,29,53	15,53,92
1875-76 ...	15,30,84	62,98	......	1,27,60	14,66,22
1880-81 ...	28,93,54	......	3,44,28	4,78,54	27,58,98
1886-87 ...	19,52,50	......	1,67,03	98,50	20,21,03
1890-91 ...	20,69,00	......	1,70,76	78,56	21,61,21
1895-96 ...	25,39,81	......	......	......	25,39,81
1900-01 ...	22,62,42	73,99	1,18,46	1,33,72	23,21,15
1901-02 ...	23,64,58	73,99	1,44,71	1,58,73	24,24,68
1902-03 ...	26,01,95	61,38	1,64,50	1,82,65	26,45,19
1903-04 ...	26,79,78	92,06	1,59,25	2,09,97	27,21,12
1904-05 ...	30,26,35	93,11	1,67,98	1,81,52	31,04,42
1905-06 ...	28,90,06	82,66	1,86,18	2,07,41	29,51,49
1906-07 ...	24,98,67	99,50	1,89,88	2,12,51	30,25,55
1907-08 ...	27,97,12	72,75	1,92,48	1,75,11	28,87,25
1908-09 ...	28,76,58	71,54	1,49,46	1,57,14	29,40,74
1909-10 ...	28,35,17	69,17	1,33,34	1,70,54	28,66,84
1910-11 ...	28,69,76	66,88	1,36,26	1,83,15	31,89,75
1911-12 ...	29,30,48	67,60	1,37,15	2,01,45	29,33,78
1912-13 ...	29,36,47	71,98	1,34,48	2,08,14	29,34,82
1913-14 ...	29,68,38	76,92	1,44,55	2,05,44	29,84,41
1914-15 ...	30,50,48	69,50	1,51,45	2,06,20	30,80,53
1915-16 ...	32,83,98	1,11,82	1,29,65	1,86,26	33,39,20
1916-17 ...	36,39,00	1,04,65	2,24,87	2,36,39	37,48,62
1917-18 ...	42,14,08	1,21,17	2,79,28	2,58,07	43,56,47
1918-19 ...	64,21,09	1,69,14	4,34,98	3,52,49	66,72,03
1919-20 ...	82,98,20	2,05,85	5,98,94	4,05,24	86,97,76
1920-21 ...	87,75,00	1,69,22	5,60,00	6,66,11	87,38,13
1921-22 ...	70,85,72	1,71,75	5,30,49	8,06,93	69,81,04
1922-23 ...	64,70,60	1,39,97	4,89,99	5,73,78	65,26,80
1923-24 ...	55,94,56	96,54	4,13,17	4,81,56	56,22,75
1924-25 ...	54,66,56	74,10	4,25,85	4,03,11	57,59,40
1925-26 R. E....	55,21,87 R.E.	71,41	4,20,61	3,85,89	56,28,00
1926-27 B. E....	54,10,84 B.E.	78,80	4,28,15	4,29,79	54,58,00

Details of the Military Budget for 1926-27

—	India other than Exchange.	India, Exchange.	England. (1 £=Rs. 10).	Total.
	Rs.	Rs.	Rs.	Rs.
EXPENDITURE—				
48—ARMY.				
PART A.				
I.—MAINTENANCE OF THE STANDING ARMY	26,39,66,110	87,14,670	2,61,44,000	29,88,24,780
II.—COST OF EDUCATIONAL, ETC., ESTABLISHMENTS AND WORKING EXPENSES OF HOSPITALS, DEPOTS, ETC.	8,37,50,890	10,55,670	31,67,000	8,79,73,560
III.—ARMY HEADQUARTERS, STAFF OF COMMANDS, ETC. ...	2,12,27,280	2,43,330	7,30,000	2,22,00,610
IV.—STOCK ACCOUNT ...	—1,62,54,480	......	1,25,73,000	—36,81,480
V.—SPECIAL SERVICES ...	9,36,170	16,33,330	49,00,000	74,69,500
VI.—MISCELLANEOUS CHARGES	36,13,360	58,92,670	51,05,000	1,46,11,030
VII.—NON-EFFECTIVE CHARGES	3,67,66,000	1,19,27,000	3,57,81,000	8,44,74,000
TOTAL—PART A ...	39,40,05,330	2,94,66,670	8,84,00,000	51,18,72,000
PART B.—AUXILIARY AND TERRITORIAL FORCES	1,04,33,000	......	......	1,04,33,000
PART C.—ROYAL AIR FORCE	1,12,77,670	18,75,330	56,26,000	1,87,79,000
TOTAL 48—ARMY ...	41,57,16,000	3,13,42,000	9,40,26,000	54,10,84,000
49—MARINE ...	49,22,670	7,39,330	22,18,000	78,80,000
50—M.E.S. ...	4,25,25,660	72,340	2,17,000	4,28,15,000
TOTAL EXPENDITURE ...	46,31,64,330	3,21,53,670	9,64,61,000	59,17,79,000
RECEIPTS ...	3,77,76,000	13,01,000	39,02,000	4,29,79,000

These figures have been altered considerably since the first edition. In the first place the figures are all uniformly in rupees, instead of a medley of pounds and rupees as in the official statistical summaries. Accuracy may, perhaps, have been sacrificed by this procedure to convenience, though every care has been taken to see that the rupee figures are as closely corresponding to the old sterling figures as is possible under the circumstances. Besides, the earlier figures are given at the interval of five years, as the other mass of annual figures seemed to be needless for purposes of comparative study, which is the aim of this work. In the last fifteen years, the figures given in the decennial statistical abstract have been chiefly relied on, those for the two very last years being compiled from the Budget Statement for 1926-27, and are the revised and the budget estimates, respectively, for 1925-26 and 1926-27.

The figures, however, do not by any means give an exact idea of the total military burden on India. They ought, for example, to include the cost of military stores; but in the earlier years, at least, it is well-nigh impossible to distinguish between civil and military stores; and hence it seems most convenient to exclude them. Then, again, the cost of Military and Frontier Railways,—what are nowadays styled the Strategic Lines,— ought, in strict fairness, to be charged to the military budget; but it is next to impossible to recast the accounts so as to include this item. Finally, the interest charge, at least on all monies borrowed specifically for the prosecution of hostilities, or for the execution of military works, or for the equilibrium in the ordinary budget disturbed on account of the exaggerated military charges, should, strictly speaking, be included in the Defence Budget of the country. It is, however, manifestly impossible, at least for an outside student, to effect this vital change in the accounts of the Government which do not give its due prominence and correct place always even to the item of the exchange variations, and the resulting addition of the burden to the country, which has formed an important feature more than once in the past.

Such as they are, however, these figures show a steady increase in the total military budget of the country, which has to be explained or justified, if the financial administration of the present Government of India is to deserve the name of a civilised administration.

The receipts under the various military departments have, we may add, been given in the aggregate in one lump sum, and not split up under the respective constituents of the army proper, the Marine, and the Special Defence Works or Engineer Services branch.

VII.—Conditions of Service

As regards the conditions of service in the army, the first decade of the present century was fruitful in liberal improvements. In 1902, the pay of the British troops in India was increased by *2d.* a day at the extra cost of £225,000 per annum; two years later another increase of from *4d.* to *7d.*

a day was sanctioned under the name of service pay. The whole of the service pay issued in India was borne by the Indian Exchequer according to the decision, on arbitration, of the Lord Chief Justice of England. The extra charge was £700,000 a year. In 1909, the pay of all ranks of the Indian Army was increased by Rs. 3 a month to the non-commissioned officers and men of the silladar cavalry, and Rs. 2 to other troops, with a free fuel allowance, all costing an additional £4,25,000 per annum. At the same time the pay of the junior officers was raised, a kit-and-boot allowance was added, pensions rules revised, and free passage by rail granted. The accommodation for the Indian troops was improved in 1910, forty years after the barracks for the European soldier had been improved at a cost of crores from the public revenues.

The pay of the Indian soldier in the Indian Army is very meagre. From Rs. 7 at the time of the Indian Mutiny it was raised in 1895 to Rs. 9 per month, and to Rs. 11 on enlistment since in 1911. In addition to that sum he gets, since 1918, Rs. 4 a month as war bonus, which, the Esher Committee has recommended, should be permanently incorporated in his pay, making a total of Rs. 15 a month. The pay includes a compensation for dearness of provisions, granted when the principal articles of provisions are calculated to cost more than Rs. 3-8-0 to a combatant and Rs. 2-8-0 to a non-combatant, the Government paying the excess. Extra pay is given to non-commissioned officers and men in recognition of their zeal, efficiency and good conduct. Before the war they got free rations when on service. Now they receive them always, when marching or on field service. Pension of Rs. 4 a month can be earned after 21 years of service, the rate being increased if the service be of 32 years and meritorious.

The following table gives a comparative idea of the conditions of pay and emoluments to the officers and men of the army in India.

Rank	Pay conditions in		
British Army.	1914 (per month) (Cavalry:	Infantry)	1923 (Cavalry and Infantry.)
	Rs.	Rs.	Rs.
Lieutenant Colonel... ...	1,037	1,002-4	1,250
Major (after 25 years' service)	830	780	1,050 (after 5 years' service.)
Major	780	730	950
Captain (after 3 years in rank and 12 years' service)	430	580	850 (after 15 years' service.)
Captain	485	435	750
Lieutenant (after 6 years' service)	350	300	550 (after 7 years' service.)
2nd Lieutenant	300	250	425

(N. B.—The pay of the Ranks and non-commission is given per diem.)

Rank British Army.	Pay conditions in 1914 (per month) (Cavalry ;	Infantry)	1923 (Cavalry and Infantry).
Reg. Sergeant-major ...	5s. 4d.	5s.	14s.
Quarter-master Serg. ...	4s. 4d.	4s.	12s.
Sq. or Coy. Serg.-Maj. ...	4s. 4d.	4s.	10s.
Colour Serg.	...	3s. 6d.	9s. 6d.
Sergeant	2s. 8d.	2s. 1d.	7s.
Corporal	2s.	1s. 8d.	5s.
Lance Corp.	...	...	4s. 3d.
Private	1s. 2d.	1s.	2s. 9d.

Indian Army.

	Rs. a. p.	Rs,
Lieutenant Colonel	827 14 0	1,250
Major (after 5 years rank)	640 14 0	950
Captain (after 15 years)	400 0 0	850
Captain	400 0 0	750
Lieutenant (after 7 years)...	...	550
Lieutenant	280 0 0	475
2nd Lieutenant (after 2 years)	...	475
2nd Lieutenant	...	425
Risaldar Major	180 0 0	250
Subedar Major	115 0 0	200
Risaldar	180 0 0	180
Subedar	115 0 0	130
Jamedar (Cav.)	68 0 0	85
Jamedar (Inf.)	57 8 0	75
Duffadar	29 0 0	31
Lce. Duffadar	24 0 0	26
Havildar	23 0 0	25
Naik	21 0 0	22
Lce. Naik	...	18
Sowar	14 8 0	18
Sepoy	12 8 0	16

In the case of the officers, there are, besides the rank pay, Command allowances, ranging from Rs. 500 per month in the case of the Indian Cavalry and Infantry Colonel Commanding, (it was Rs. 700 p. m. and Rs. 600 p. m. respectively in 1914) to Rs. 100 p. m. in the case of the Com-

pany and Squadron officer commanding. These allowances have been reduced since 1914, so that the total emoluments may in some cases be actually less than in 1914 despite the increase in the substantive pay.*

As regards the Military expenditure in England, at first the payment was made on a capitation rate of £10 per soldier, the term soldier including officers of all ranks, but later on the system was abandoned in favour of

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* Says a note to the account under Head I of the *Estimates of Expenditure for Military Services*, for 1926–27 p. 27:—

"Pay of rank of regimental officers (including officers of the Army in India Reserve for the period they come up for training which at present is restricted to one month), command or additional pay, compensation for inferior quarters, syce and forage allowance for chargers, presidency town allowance at Calcutta, Rangoon and Bombay, local allowance at Chitral and Drosh and marriage allowance are included under this head. Lodging allowance is also included for officers who are not provided with free Government quarters.

In March 1925 orders were issued revising the rates of pay of all the regular King's Commissioned officers of the Army in India. The principles adopted in the revision departed considerably from previous practice and the officers' pay was based on the rates current in England. The main departure has been to distinguish between the emoluments of married and unmarried officers by the grant to the former (who are over 30 years of age) of a marriage allowance and a higher rate of lodging allowance. The result is that the pay of British officers in India now consists of the following elements :—

(1) A basic pay of rank.

(2) An Indian allowance.

(3) A servant's allowance.

(4) Free quarters or a lodging allowance in lieu.

(5) A marriage allowance for married officers of the age of 30 and over.

The pay of Indian Army officers contains the foregoing items *plus* an Indian army allowance. Officers holding Staff and Departmental appointments receive consolidated rates of pay which, while including the above items, have a further element as payment for their more onerous duties or as a compensation for the loss of prospects which departmental service entails. Officers of the Royal Engineers also receive engineer pay which is granted in all parts of the Empire for their special qualifications, and similarly officers of the Indian Signal Corps receive an addition of Signal pay.

In addition separation allowance has been introduced for married officers serving in stations where, under the orders of Government, their families may not accompany them. Pay of British other ranks according to rank at normal rates (including proficiency pay at 6 annas per diem up to the rank of Sergeant) or tradesman's rates if employed in a technical arm of the service, messing allowance at 3½ annas a day (6 annas in the case of those serving within the concessional area in Waziristan), extra duty pay, marriage and furniture allowances The recoveries in India of compulsory allotments paid in England as well as of deductions made in the pay of British soldiers under the Contributory Pensions rules are recorded here.

Reduced rates of pay for British soldiers enlisted or re-enlisted after 26th October 1925 have been introduced in England and have been applied to India. As the soldiers coming out to India receive between one and two years' training prior to embarkation, the savings on this account do not affect materially the Budget for 1926–27, but will be reflected in future years' estimates, and may amount to over Rs. one crore after seven years.

Pay of Indian officers and other ranks according to rank to serving soldiers, and recruits undergoing training, reserve pay at Rs. 7 per mensem for class A and Rs. 4 per mensem for class B reservists for the period they do not come up for training, good conduct or good service pay according to the length of service, extra duty pay, engineer pay, signal pay, pioneer pay, corps pay in the case of M. T. drivers, allowance to trained surveyors, personal allowance of 50 per mensem to Indian officers, local allowance at Chitral and Drosh and allowance of annas 10 per mensem to supplement purchase of ration articles are included under this head. Rs. 4 per mensem during winter months and Rs. 3 per mensem during the summer is paid, in lieu of 10 annas per mensem, to I. Os. and I. O. Rs. employed in the concessional area in Waziristan."

actual expenses, which again was superseded by a new capitation rate. All changes in the organisation and equipment of the British Army such as the Short Service System, introduced by Lord Cardwell, in the British Army in 1870 were also given effect to in India independent of any consideration as to whether the change was suitable to Indian conditions. India has also to bear the charge of every increase in the pay &c. of the British troops, which are given effect to in the United Kingdom, apart altogether from her financial ability to bear these charges.* The increment of *2d.* a day allowance granted to British troops in 1902, an all-round increase of *4d.* a day granted to British troops in 1904, and the similar increase granted in 1916–17 may be cited as examples. This capitation rate was revised, regularly, in 1908, when, as the result of a compromise between the Secretary of State for India and for War, it was raised to £11–8–0 at the cost of £300,000. In 1920, the War Office represented that in view of the rise in the rates of pay and prices this rate was no longer adequate, and hence from 1920–21 payments to the War Office were made on a provisional basis of £28–10–0 for 2 years, and in 1922–23 at £25–13–0 per head on the average estimated strength of British troops in India. In 1923–24 the rate was reduced to £25–0–0. The Inchcape Committee on Retrenchment accordingly held on this point :—

> "The settlement of 1908 was in the nature of a compromise, and it is not possible to split up the total charge into the various components entering into the cost. We recommend that the conclusion of a fresh regular settlement should be expedited, and suggest that the most equitable arrangement will be to base the payment on the number of troops sent out and the cost of training them, to fix a separate rate for the technical services, and to allocate the cost to the War Office of training recruits between the India Office and the War Office *pro rata* to the normal colour service in each country, subject to a due allowance for the potential value to the British Government of returned men available for the Reserve." [*Ibid.* para 50 p. 29.]

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* From 1824 to 1860 the actual expenditure incurred at home in defraying the effective charges of the Royal troops serving in India was ascertained and recovered from India. Inconvenience and delay attended this method of adjustment, and when the permanent British force in India was greatly increased after the mutiny, it became necessary to reconsider the subject. A Committee was appointed for the purpose in 1861. It recommended after much consideration that payment should be made for Home charges in the form of a Capitation Rate of £10 on every soldier on the British establishment in India, the term soldier including officers of all ranks alike." (para 258 Welby Commission Report).

"The greater part of the claim refers to services the cost of which is covered by the 'Capitation Rate.' These services are :—(1) Enlistment and training of the recruit ....(2) the pay of young officers appointed to vacancies in the force and awaiting orders to sail.................(3) training of veterinary surgeons in India ; (4) the examination of the candidates for the I. M. S. (5) Educational establishments............... (6) advances of 25 days' pay to drafts sailing for India; (7) Expenses of men sent home from India either as invalids or time-expired men....................(8) Expenses of Indian invalids at Nently and Woolwich Hospitals." (para 254 Welby Commission Report).

"The Government of India paid actual charges upto 1860 ; payments on account were made between 1861 and 1869. The Tulloch Committee recommended a £10 Capitation Rate which the Government of India disputed, and so they made payments of sums which were accepted by an Act of Parliament in full discharge upto 1878. Again a committee was appointed to determine the payment for the future which finally fixed the payment at £7–10–0 in 1889–90." [*Ibid.*]

We may here as well notice the nature and scale of the so-called Non-Effective Military charges.

1. Non-effective charges mainly represent the discharge of liabilities in connection with individuals who no longer serve in the Army, and consist of payments of pensions and gratuities to them or their families. Rewards attached to certain military decorations and medals and for distinguished war service, which frequently involve payments to officers and men still serving in the Army, are also taken to this head, those to individuals on the retired list being compiled under sub-head B as part of pension charges and those to serving officers and men to sub-head A. The charges for pensions are under three main categories, *viz.*, (1) pensions to retired or disabled officers and men, (2) pensions to families of individuals killed in action or as a result of war service or during service and (3) payments to War Office of a proportionate share of retired pay, etc., of British service officers, and troops serving in India. Against the liability under (2) contributions are recovered from officers during their service, which are credited as non-effective receipts. The other receipts are contributions received by the Indian Government in respect of ordinary pensions payable from Army estimates to officers and men on foreign service in Iraq and elsewhere.

2. The annual and monthly minimum and maximum rates of ordinary retired pensions of typical classes in the Army are given below.

Ordinary Pensions.	Minimum.	Maximum.
	£	£
Major, Indian Army	245	536
Lieutenant-Colonel, Indian Army	578	800
Colonel, Indian Army	800	900
Major General, Indian Army	900	1,000
Lieutenant-General, Indian Army	1,000	1,200
General, Indian Army	1,200	1,400

N.B.—The above rates are made up of three parts, *viz.*, (1) a service element based on the officer's total service for Indian pension, (2) a rank element for the rank in which the officer retires and (3) an Indian element for service in the Indian Army. The above rates are subject to a provisional reduction of 4 per cent. for 3 years from the 1st July 1924.

	£	£
Sub-Conductor, Indian Unattached List ...	120	243
Conductor ... " ...	150	243
Assistant Commissary " ...	190	400
Deputy Commissary " ...	240	400
Commissary " ...	300	550

N.B.—A portion of these rates is subject to a provisional reduction.

	Rs.	Rs.
Sepoys and analogous ranks	5	6
Naiks " " "	7	7
Havildars " "	12	15
Jemadars " "	30	40
Subedars " "	55	75
Subedar-Majors and Risaldar-Majors ...	105	125
Indian officers granted Honorary King's commissions	110	200
Followers (in certain cases)	...	5

VIII.—Criticism, Prospects and Suggestions

In offering criticism on the Indian military or defence expenditure, we must necessarily confine ourselves to political and financial considerations. Such a course is likely to render much of our criticism nugatory to those who urge the plea of efficiency; for we are unqualified to judge of technical questions of military organisation and efficiency. Our only defence against what might be alleged to be one-sided criticism is: military efficiency is a relative term which must be determined in the case of each country by the combined consideration of its needs of defence and the resources at its disposal. This has been admitted by Anglo Indian statesmen of the highest status.*

There is always a point beyond which considerations of mere military efficiency pass out of the stage which has everywhere been reserved tacitly for the professional soldier and his governing idea of fighting efficiency. The larger problems involving expenditure of large sums of money, and the strength and disposition of troops in relation to possible enemies, must certainly not be decided on the fiat of military experts. For these matters affect the State as a whole, and as such, must be looked at from the civil or financial, as well as the military or efficiency, standpoint. Again, military efficiency—as all such ideas—is a frequently changing quantity, of which we in India have had painful experience. What one commission of military experts lays down as the ideal to be striven for may be knocked on the head by another equally "competent" body of "experts." Finally, even if we consider the military history of India during the last two generations from the narrowest conception of efficiency, we can scarcely say that, even from that stand-point, the vast sums annually spent on the army have been justified. After the Mutiny, there remained no first class rival army in India to challenge the military supremacy of the Indian Army. But in the one great war of the last 60 years—the Afghan War of 1879-80—the results were far from establishing the unchallenged and unchallengeable supremacy of the Indian Army. The whole story of the frontier warfare shows the same net result. The experience of, and encomiums on, the Indian troops in the Chinese, Egyptian and South African campaigns must not be taken at more than their face value, since in all these campaigns,—as in the great World-War of 1914-18,—the Indian troops formed one small contingent of the total army engaged.

Excluding, therefore, considerations of military efficiency, our criticism will be centred on political and financial grounds. To facilitate clearness,

* Lord Mayo wrote :—"Though the financial necessities of the hour have brought more prominently to your view the enormous cost of our army (16·73 crores) as compared with the available resources of the Country, I cannot describe fiscal difficulties as the main reason for the course we have taken. **I consider that if our condition in this respect was most prosperous, we should still not be justified in spending one shilling more on our army than can be shown to be absolutely and imperatively necessary.** There are considerations of a far higher nature involved in this matter than the annual exigencies of finance or the interests of those who are employed in the military service of the Crown. Every shilling that is taken for unnecessary military expenditure is so much withdrawn from those vast sums which it is our duty to spend for the moral and material improvement of the people." Minute of 3rd October 1870.

we shall divide our criticisms into two main aspects, the one comprising general principles of national defence and military policy, the other including details of military organisation.

As regards the general principles governing the military policy of the pre-Mutiny era, the maintenance of a strong army was perhaps necessary for accomplishing the conquest and consolidation of the Indian Empire. After the Mutiny, all the internal enemies or possible rivals having been overcome, the task of the army was to defend the Empire against aggression from outside, and the maintenance of order within the Empire, should it ever be disturbed by the ambition of a native power, or endangered by the disaffection of any section of the army itself, or of the people. This last, however, became of increasing insignificance, as the sympathies of the educated and propertied elements in the country became more and more centred on the maintenance of the British rule*; and the single units of the army have begun to realise the futility of insurrection in face of the all absorbing importance of the most up-to-date equipment for a successful rebellion. And as regards the former point, for 20 years after the Mutiny, the Government of India managed to preserve perfect neutrality in spite of the temptation to meddle in the Afghan affairs, in spite of the tirades of such leaders of the Forward school as Rawlinson and Frere, thanks chiefly to the experience and fore-sight of men like Sir John Lawrence, Lord Mayo and Lord Northbrook.

The main purpose for which the army is maintained in India has passed through many metamorphoses in the course of these three score years and ten. The Simla Army Commission of 1879, presided over by Sir A. Eden and assisted by Lord Roberts, laid down the principles governing the military strength of India substantially on the lines given above, *i.e.* an Army primarily for defence against aggression from outside, and for the maintenance of peace and order within the country.†

These objects were legitimate, though some of them were almost insignificant; and they were strictly adhered to during the viceroyalty of Lord Ripon. In 1885, when Russia had occupied Penjdeh in the no-man's land between the Afghan and Russian frontiers in Central Asia, this policy of wise preparedness, coupled with neutrality, was abandoned in the heat of the war-fever. The additions to the strength of the Army, the prosecution of unproductive frontier railways, the construction of special defence works—all ordered during the jingo-fever—were all continued even after the threatened war had been averted. Though the Simla Army Commission had taken into consideration the possibility of a war with Russia allied with Afghan-

* It is a bitter irony of fate that it should have been reserved for an Indian member of the Esher Committee to write a special minute breathing a note of distrust in every line as far as the Indian people are concerned.

†"The purposes for which the Army of India must be maintained may be stated to be (a) preventing or repelling attacks or threatened aggression from foreign enemies beyond our border: (b) making successful armed disturbance or rebellion, whether in British India or Feudatory States, impossible," Simla Army Commission. The Esher Committee has laid down no definite purpose for the maintenance of the Army in India.

istan—and not, as was the case in 1885, Afghanistan allied with India against Russia—in prescribing the strength of the Indian Army, the increase was made by the Viceroy who for the first time enunciated the policy of the Buffer State. The project for the conquest and annexation of Burma, which was next undertaken to provide occupation of the increased army, justified, with painful promptitude, the prophecy of the two members of the Viceregal Council—Sir Auckland Colvin and Sir Courtenay Ilbert—who had energetically protested against such an increase.* The Burma campaign was only the forerunner of the Kashmere imbroglio under Lord Landsdowne, leading to the unprofitable occupation of Gilgit, Hunza and Nahyar. The Chitral expedition, and the inglorious campaign of Tirah, followed inevitably. And when Lord Curzon had apparently set at rest the perennial frontier troubles by the annexation of the frontier territory, and the formation of the North-West Frontier Provinces in 1901, the rampant Imperialism of the brilliant, hard-working, but unsympathetic Viceroy found expression in the so-called "peaceful" mission to Tibet, with ulterior designs on Yunan and a Cesarian promenade in the Persian Gulf.

This radical change was at first cloaked under the pretence of military defensive preparations. It was not, however, till nearly 20 years after the policy of spread-eaglism was put into execution, that the responsible officers of the Government of India first openly admitted a change of the angle of vision.† In the financial discussion of the budget of 1904-05, Sir E. Elles first admitted this altered object of the army in India, in answer to the repeated and trenchant attacks of the late Mr. Gokhale on military finance. Lord Curzon defined the attitude of his Government, on very nearly the same lines, though, of course, with greater wealth of words and brilliance of expression.‡

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* "There seems every reason to apprehend that the increase of our forces beyond the needs enumerated by the Army Commission may prove a weapon less of defence than of aggression. We are of opinion that no circumstances have arisen, which, from a military point of view, have not already been foreseen and guarded against; the proposal to increase the strength of the Army by 27,000 men should be negatived. We are further of opinion that it may lead to the advocacy and possibly to the adoption of projects for the extension of our present frontier......It has already been pointed out that the existence of such a force should be no mean agent in bringing about the very risk which it is meant to obviate. A standing army which is larger than is necessary for home requirements will be a temptation, an almost irresistible weapon of offence beyond the border." Minute of dissent, 14th August 1885.

† "Are we to be content to hide ourselves beyond our monntain barriers under the foolish impression that we should be safe, whilst the absorption of Asiatic Kingdoms is steadily in progress......It is, I think, undoubted that the Indian Army in the future must be a main factor in the maintenance of the balance of power in Asia; it is impossible to regard it any longer as a local militia for purely local defence and maintenance of order" (Budget Discussion 1904-05).

‡ "India", said his Lordship, "is like a fortress with the vast moat of the sea on two of her faces and with mountains for her walls on the remainder. But beyond these walls, which are sometimes of by no means insuperable height and admit of being easily penetrated, extends a glacis of varying breadth and dimension. We do not want to occupy it, but we also cannot afford to see it occnpied by onr foes. We are quite content to let it remain in the hands of our allies and friends, but if rival and unfriendly influences creep up to it and lodge themselves right under our walls, we are compelled to intervene because a danger would thereby grow up that might one day menace our security. This is the secret of the whole position in Arabia, Persia, Afghanistan, Tibet and as far eastwards as Siam." (Bndget discussion 1904-05).

The use of the Indian Army as a force to settle the British Imperial quarrels was, though never officially recognised in so many words, gradually accepted in fact. The Esher Committee writes :—

> "We cannot consider the administration of the army in India otherwise than as part of the total armed forces of the Empire. * * * * * * Novel political machinery created by the Peace Treaty has enhanced the importance of the Army of India relatively to the military forces in other parts of the Empire, and more particularly to those of the British Isles".

But these principles—or implications—are fundamentally unacceptable. The Army in India must be exclusively an Army for Indian defence, so long at least as no part of its cost is borne by the Imperial Government. And even on the agreement that on occasions when any part of the Indian army is used for Imperial purposes outside the frontiers of India its expenses shall be defrayed wholly by the part of the Empire making such a use, we do not think it fair to ask India *permanently* to maintain a standing Army far in excess of her own national requirements, and thereby accept a far larger ordinary out-lay for what is really a matter of extraordinary and Imperial Defence.*

If the strength of the Army in India is strictly limited by considerations exclusively of Indian national defence, and its cost reduced in proportion, we should need a standing army of 1,50,000 men, of which, even on the unjust, uneconomic, unnecessary proportion of 2 Indians to 1 European, 50,000 may be Europeans and 100,000 men of all ranks may be Indians. Their cost, according to present conditions *viz.* Rs. 2,500 per each European soldier and Rs. 600 per each Indian, would amount to Rs. 18 crores. True economy, however, would first reduce that portion of the army which is relatively much more costly; but as a matter of practical politics we may dismiss any such economical and equitable arrangement as being outside the realm of possibilities.

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* The last instance of the employment of Indian troops outside the frontiers of India can scarcely be regarded as an example of Anglo-Indian chauvinism ; for the present war must be admitted to have broken out owing to influences entirely beyond the manipulations of Simla or Charles Street. The help India has rendered to England in this war must be a convincing, though costly, proof of India's loyalty to the Empire. It would have been all the more graceful if the representatives of the Indian people had in reality been free to vote such a handsome contribution of their own accord. £100 million were given as India's war contribution on the motion of the Finance Minister in 1917. The non-official members of the Viceregal Legislative Council had no answer to the logic of this "fait accompli." This was in March 1917 ; in September 1918 another contribution of £45 million was similarly voted, but this time it was by a resolution in the Imperial Legislative Council, which, in the then state of the allies, the non-official members dared not oppose. It was a contribution towards carrying on a purely European struggle for the protection, benefit, or aggrandisement of the Western European allies. India had no place in it ; and, in view of the hostilities with Turkey, it was decidedly against the secret convictions of a majority of thinking Indians, who do not wish to multiply causes of domestic dissensions by joining in the Imperialistic chauvinism of Britain. The contribution, moreover, had historically no precedent, and economically no justification, though politically it may have appeared for the moment a good expedient to purchase the Reforms. Even so the Rowlatt Acts and the Punjab terrorism followed too soon afterwards to leave an abiding sense of mutual appreciation.

This brief historical review of the evolution of the Indian military policy suggests obvious points of unanswerable, unfavourable criticism. It has in the first place been a **most costly** policy, beyond the ability of the Indian people to bear. It has absorbed a growing proportion of the Indian revenues, and excluded from the sympathetic consideration of the Government all projects of internal improvement costing money. It has led India into expensive, unnecessary, unproductive annexations of territory, justly exposing the Indian Government to the suspicions of our neighbours. Finally, it is making India take an unnecessarily, unjustifiably, extravagantly larger and larger share in world politics under the influence of Britain, and thereby involving us into further quarrels with our neighbours, which are not of our seeking or for our benefit. India has no military ambitions. India desires to remain in peace herself and will not disturb the peace of her neighbours. Why then this colossal waste on an utterly unnecessary object?

The policy has, besides, become entirely unjustifiable on the very grounds on which, in the past, expenditure has been increased. Amongst the causes most frequently urged for increased expenditure were those noted in the margin, to which we may add,—though this last is nowhere officially accepted in so many words—the requirements of the maintenance of balance of power and the preservation of internal peace. If we keep to our legitimate, or even the enlarged frontier of 1901, and do not lose ourselves in the vain search after a "scientific frontier," it may well be said that all the necessary roads and railways on the frontier have been completed; that no greater frontier expeditions beyond punitive measures are or will be necessary that the programme of special defence works has been exhausted; that the conditions of pay etc. are as liberal as can be desired. And as regards the maintenance of the balance of power in Asia, the conclusion of the Anglo-Russian agreement in 1908 in spite of Afghanistan, and of the Anglo-Japanese alliance—makes further increase in the strength or expenditure on the army absolutely unnecessary, and its reduction innocuous.* As regards the maintenance of internal peace, the manifestation of anarchical tendencies in isolated instances by warm-blooded, well-meaning, but gravely disappointed youths did, indeed, supply a plausible, pretext for the maintenance of 300,000 men, fully armed with the latest description of destructive weapons, to put down perhaps not more than 30 individuals of heated, youthful imagination, playing at terrorism with

1. Frontier expeditions.
2. Increase of pay &c.
3. Increase of Home military charges.
4. Special defence works.
5. Reorganisation &c.
6. Military roads, buildings &c.
7. Mobilisation.
8. Exchange, while it lasted.

* The Japanese alliance was not renewed in 1921 owing to the opposition of the self-governing Dominions. The Anglo-Afghan Treaty, however, has settled the relations with our immediate and more turbulent neighbour, so that danger from this quarter has become insignificant.

picric acid. But even if that excuse was acceptable to the scared officials in the first decade of this century, it may at least be conceded now, after the proofs given by India of her loyalty in the last war, that increased military expenditure on that account is unnecessary.

The last and the most important criticism against this change in policy is that, even admitting its wisdom and necessity, it imposes unfair, disproportionate burdens on India. If the annexation of the frontier territories be an object of the Indian Army; if the maintenance of the balance of power in Asia is desirable; these are objects imposed upon us by Imperial considerations, which are, to say the least, as beneficial to England as to India. Of the total military strength of the British Empire, India has supplied the largest proportion, and borne the largest share of such expenditure, after England. The advantage of such armies is common to the Empire, though its greatest benefit necessarily goes to England. Why then should England not bear a share of such increased expenditure on the army maintained in Imperial interests? Parliament has solemnly enacted that the revenues of India shall not be employed for military operations beyond the frontiers of India without the consent of Parliament—the object being to keep in check the instinct and traditions of aggrandisement of an irresponsible bureaucracy. Yet, in every instance in which the troops of India have been employed outside India, the sanction has been granted as a matter of course, without a thought for the true interests of India. And, with the single exception of Gladstone's contribution of £5 millions towards the cost of the Afghan War, Parliament has never effectively protested against the irrepressible chauvinism of the Indian Government.

India, it is true, does not ostensibly bear any cost of the Navy beyond her annual contribution of £100,000;* and the British Navy, it is alleged, is for the common defence of the Empire. As a matter of political organisation and historical fact this is not true. Britain maintains a Navy primarily and entirely for her own needs. She depends for her very existence upon foreign commerce, and she believes a strong Navy—once on a two-power basis, now, since the advent of the American rivalry, on a single power standard—to be the best means of securing the "freedom of the High Seas." She will not think of using the Navy for the defence of the outlying parts of the Empire, when her own island home is threatened, any more than the Roman legions garrisoning distant provinces could be left in those parts when the Huns and the Goths came thundering to the very gates of Rome. The skin is nearer than the shirt. Britain, of course, would use her navy for the defence of other parts of the Empire, not out of any charity or

* But see *Ante* p. 77.

India might still have, if only for purposes of education, an Indian navy, exclusively under Indian control and management, at a recurring cost of three or four crores, provided the army expenditure was reduced in conformity with Indian demands. The projected Indian navy, estimated to cost at first much less than the above figure may serve the educational need, and may eventually secure even the complete control and management of that navy by Indians. But it will take time, much longer than we imagine to-day.

philanthropy, but because of her own commercial interests, or her imperial vanity, when her own existence is in no way endangered in so doing. But we cannot conceive of India needing such a help, and Britain rendering it, exclusively for the benefit of this country. India has no naval foes to fear, as she has no ambition to monopolise the trade of the world, or terrorise the peoples of every continent. India has no open sea-board to protect, her deserts and ghats being sufficient barriers to any likely naval foe. And as for her overseas trade, it is no doubt considerable. But it is an open question whether Indians need regret if the present trade is entirely stopped; or, in the alternative, whether those who need India's raw materials for their own industries will not be willing for their own sake to extend their naval aid to India. There is thus no ground to think of an Indian navy; no reason to regard the heavy military outlay as a set-off to the absence of any navy.

Coming next to the criticism of the Indian Military Policy from the standpoint of details of expenditure, the first point to be noticed is the amalgamation of the European troops in India with the whole British Army. Thanks to this amalgamation, the Government of India has had to pay more for its European forces than if they had been recruited in the country itself. Every change in the military finance introduced in England, and suited to the riches and rivalries of England in Europe, has had to be introduced in this country. And in return for that heavy expenditure, India does not obtain the full benefit of the experience of the British troops. From the stand-point of the people and the Government of India the system of short service for British troops in the other parts of the Empire by a regular tour through the Empire was found objectionable at its inception.* Besides, the general proportion prescribed by the Army Amalgamation Commission required, roughly, one European soldier to every two Indian soldiers. Such a proportion, necessary to men like Sir John Lawrence, does scant justice to the proved loyalty of the Indian troops for now more than two generations. The necessary margin of personal safety to the alien rulers of a large country like India may demand the maintenance of a considerable proportion of the troops from their own race, even though at a very great cost; but the present British monopoly in artillery and of the new modes of destruction in war-time may be considered to give all the requisite margin of safety to a Government who take their stand more on justice and excellence in their administration than excellence in military science or military strength. This limitation on the proportionate strength of the European and the Indian elements in the Army in India of necessity keeps down the total strength of that force. For the total Indian army cannot be more than a certain multiple of the men that Britain can spare for service in India. Britain has a total military strength—on the basis of universal military service—of about 4 million. She cannot afford to be a conscriptionist; and, therefore, will not spare at most more than 100,000 men at a time for service in India. The total men

* See the evidence of Sir George Balfour before the East India Finance Committee, 1871-74. Also the opinion of Prof. Fawcett.

fit for military service in India are between 30 and 35 million; but while the present policy of maintaining rigidly proportionate strength lasts, **India cannot have an army of more than 400,000 men at most**, even if she be threatened by the united armies of all her northern and western neighbours! And in this we take no account of the fact that the birth-rate is falling in Britain, while population is steadily increasing in spite of all calamities in India.

This section of the Indian Army, consisting of the British Army serving for the time being in India, causes the gravest financial anxiety to the Government of India. The charges payable to the War office under this heading, as detailed and explained in a note elsewhere, are a most important factor in the uncertainties of the Indian finance, a most grievous burden on the people of India, supportable, possibly, on dead actuarial rules, unsupportable on any other grounds. Under a variety of heads,—Capitation charges, Depot and Transport charges, Stores, Regimental Pay and Pensions for Officers and Soldiers, Absentee and Furlough allowances, Field Arms Ammunition and Ordnance Charges, and other miscellaneous heads,—the War office makes an annual drain of nearly 15 crores of rupees. The Government of India have themselves protested again and again against this uncontrollable drain. But unsupported by the people of India in that contention, they have so far proved helpless before the war office statisticians and other experts.* Unless this factor is removed or rigidly controlled by the Government of India—an impossible condition from the nature of the case,—a radical reform in the military finance of India seems inconceivable.† Finally, as already observed, the benefit of the British Army in India is by no means assured to India. In the event of an Indian necessity conflicting with the Imperial demands, the Government of India have themselves doubted whether they would be able to command the services of British troops in India, let alone the reserves for which India pays a proportionate pension charge. The regiments, batteries, and drafts sent out to India are despatched during the whole of the trooping season to take the place of men returning home discharged, invalided, or dead. The assumption of the War office that India would be able to command, at least, 11,500 men as her 'First Reserve' will hold good only in the event of a war breaking out at a

*In their despatch dated 25th March 1890 the Government of India wrote (Para 7) "The actual cost to the British Exchequer, if calculated by a purely arithmetical method, is undoubtedly the cost of the force in the United Kingdom, which would not need to be kept up if the Empire of India did not exist, and no army had to be maintained in India; but it is nowhere provided that the charges raised on account of that force represent the actual extra cost to the British Exchequer, while there are many other conditions which would have to be considered before this method of calculating can be adopted and accepted. The difficulties in the organisation of the British Army and the necessity for inducing men to join the Army cannot be admitted to arise from the presence of a portion of the Army in India. These difficulties, we apprehend, arise from a variety of causes which have no direct relation to India." Mention must also be made of the Committee presided over by Lord Northbrook and appointed to arbitrate between the Government of India and the War Office, and reporting largely in favour of the Government of India.

†The Government of India seem to have accepted, conditionally, the principle of Complete Indianisation of the army in thirty years.

particular moment when the trooping season is just about to commence. If war broke out after the trooping season had closed, those 11,500 could not be available as a "First Reserve." Moreover, it is not quite beyond probability that the identical circumstances which demand mobilisation in India might also require instant mobilisation in England as well. The latter country, under those circumstances, would not be able to part with the small number of regular troops maintained there as reserves.

The foregoing criticism is made all the more poignant by the several recommendations of the Esher Committee in this regard. In addition to prescribing very liberal concessions in a number of indirect ways, *e. g.* house accommodation and horse allowance, travelling charges, tentage bills, &c., the Committee has suggested a permanent increase of pay which would ruin Indian finance beyond recovery. Though aware of the difficulties, the Committee's guiding principle seems to have been (para 20, Sec. II, pt. V.):—

> "It has been suggested that the British officer at home, in the Colonies, in India or in the Indian Army should be paid, under Royal Warrant, a universal rate of pay (which may be called A), with an automatic Overseas allowance when serving out of the United kingdom (termed B), *and* an Indian allowance to compensate for service in the Indian army (which may be called C). Thus the British service officer serving in India would receive A+B, while the British officer in the Indian Army would receive A *plus* B *plus* C."

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> "Our principal aim has been to promote the efficiency and contentment of the army in India, and to secure that the Government of India will have at its disposal a well trained and loyal army, fit to take its share in the defence of the Empire. In submitting our recommendations, we have borne in mind that many of these will entail increased expenditure. We are aware that the present cost of the Army of India is already double the pre-war cost. We (?) have therefore been actuated throughout by due regard to economy but we have not refrained from recommending relatively costly measures, where we are satisfied that these are essential for the contentment and better administration of the army" (paras 4 and 5 of the conclusion).

Their final recommendations embody this principle of doubly penalising India for the sake of confering a benefit on the British elements in India. For a confirmation see ante p. 5 under the heading *Conditions of Pay*.

But perhaps the greatest error of the Indian military organisation combines financial and military evils in an almost equal proportion. From the Company's days of constant conquests, the Army in India has been organised entirely on a war footing. There is no separate peace establishment, as distinguished from the war establishment; so that military charges in India are in no way different in war time from what they are in peace time, except in the necessarily greater extravagance and laxer control in war time. The total strength we can mobilise in the event of a war is about 2,50,000 men of all arms, in round figures. For this in the last year before the great war we spent nearly 30 crores of rupees. In European countries, like France or Germany, before the present democratic Republic was born, they have

adopted the system of short service and reserve, which gives them a maximum of combatant strength at a minimum of cost.* India has, relatively speaking, no military reserves. The Simla Army Commission did, indeed, propose the formation of a double reserve out of the discharged native soldiers, in the hope that such reserves might enable the Government to reduce its normal peace-time military budget without causing any military or political danger. But the system of territorial reserves for India was vetoed by the Secretary of State for India. And though the regimental reserve formed in 1886 was a step in the direction, it still remains a very small fraction of our standing army, utterly insufficient to reduce the military budget. The Territorial force, as recommended by the Esher Committee, has already been noticed ; but it would not in any way reduce the cost of the regular army. From a financial stand-point it need hardly be considered; while militarily speaking its expected advantages cannot be regarded in too sanguine a light by the most infatuated of its advocates. Perhaps this absence of any considerable reserve is to be traced to the distrust of the Indian people, which has, in spite of protestations to the contrary, throughout characterised the military policy of the Government of India. To arm the people may assure a better defence of the country; but until an alien government can be assured of its own complete safety under a measure of national training for defence, it would scarcely venture on such a step.

In recent years a suggestion has been made to make the Native States of India contribute towards the cost of the Indian Army.† It is, indeed, true, that a large majority of the Indian States do not maintain any armed forces on a considerable scale, because they are not, by the conditions of their existence, required to do so. They no doubt share in the benefits, such as they are, of a common Indian army. *Prima facie*, therefore, the case for asking them to shoulder a part, proportionate to their area or population, of the cost of our army seems fairly strong. But apart from grave questions of constitutional importance, such as the control of such contingents in peace, and their command in war, like the similar question in regard to the Canadian Navy in 1914; apart also from the vexed economic question of apportioning the cost to the ability of the people concerned, which will not

* Country.	Army strength. Active list.	Reserves.	Military Exp. (Annual average.) £
United Kingdom	129,400	480,703	28,000,000
France	677,580	2,952,780	28,000,000
German Empire	610,000	3,400,000	38,000,000
Japan	210,000	830,000	11,000,000
India...	156,600	67,000	20,000,000

For an effective military strength of one third (approximately) of France or Germany, we spent in India 75% of the French military budget and over 50% of the German military budget. If we include the Reserves, ours would probably be the most costly military budget in the world in proportion to the force we maintain.

† The Imperial Service Troops, or the Indian State Forces, as they are now known, numbered 31,241 in 1925 (October 1st). These are raised and maintained at their own expense by the States, and are lent to the Government of India when needed. The Imperial cadet corps is a very small body of only ceremonial utility.

allow the Native States to pay anything like a fair share of their burden, there is the simple financial difficulty of a *quid pro quo*. If British India calls upon the Indian States to take a share in the cost of the Army in India, may not the latter, in fairness, demand a share in the Indian Customs Revenue, or the Indian Income Tax? This would mean not merely a unification of the army, but also of the finances of India. Even if accomplished, it is futile to expect from this source any substantial relief to the Indian military burden; while the compensation having to be paid may make it more onerous than ever.

In a work of this kind we are not primarily concerned with questions of a constitutional description regarding the control of the Indian Army. The Government of India being what it is, the concentration of military matters in a single omnipotent Commander-in-Chief does not make for military economy. It may even be doubted if it adds to the efficiency of the Commander-in-Chief as a soldier. In the supreme Council he is the expert, the only expert, in all matters relating to the Army. Hence any check on his estimates is almost impossible by mere civilians. If a strong Viceroy should try his hand at economy, there is ever ready the bogey of frontier trouble and internal unrest to scare away the struggling spirit of civilian check or control, or of financial economy. Before the Curzon-Kitchener controversy,—which, by the way, has ended in the Mesopotamia muddle,—the Viceroy had the power to check the military estimates with the aid of the Military Member of his council. If the Viceroy was weak or militant, or if his Finance Member was indifferent, the military elements in the supreme Government, by the freemasonry of their *esprit de corps*, could always have their own way. As a matter of fact, the army increases under Lord Dufferin were brought about in spite of the protests of the Finance Member. But now-a-days there is no possibility of even such a check. The Commander-in-Chief, a professional soldier, is the sole supreme head of the Army Department, and represents on all questions relating to the Army the military viewpoint in the supreme council of the Government of India. True there is, since the Esher Report, a Financial Adviser to the Army Department, who is a sort of an outpost of the Finance Department in the Army Headquarters. An expert financial adviser to the Commander-in-Chief, he is supposed to consider always the interests of public economy in his advice on all proposals for military expenditure. But, as the Esher Report says, he is a colleague of the army chiefs, not their hostile critic. Real, lasting economy in the Indian military budget will not be attained unless and until the control of the Army Department is placed, as in England, under a civilian Minister of the state responsible to the Indian Legislature. And the necessary counterpart of this suggestion, *viz.* that the entire Army Budget be brought under, and annually passed by, the Legislature will have to be simultaneously given effect to, if the expected reform is not to be still-born. But this demands an orientation in the entire outlook, which is not as yet discernible even in the germ.

VIII.—Summary of Suggestions

Summarising, then, our suggestions about the 'reforms in the Indian military expenditure, we find :—

(1) That the entire military budget of India, which should be calculated after due allowance is made for the interest on military debt as well as the charges under exchange, &c., should be submitted annually to the Indian Legislative Assembly; **and that no expenditure on the standing army or the reserves or on any military operations be incurred except on a clear, specific vote by that body.**

(2) That the **entire administration of the Indian Army should be placed in charge of a civilian,** preferably an Indian, member of the Viceregal council, with a view to greater attention being paid to financial considerations than has been the case in the past.

(3) That **the purposes for which the army in India is to be maintained must be clearly defined by the Indian Legislature, and must specifically exclude any participation of the army in India in non-Indian quarrels or in countries beyond the frontiers of India.** This would permit the standing army to be reduced to 150,000 men of all arms, costing about 15 crores at the present excessive rates of maintenance.

(4) That **no part of the Army in India should be employed outside the frontiers of India except on a specific vote of the Indian Legislative Assembly,** with a three-fourths majority.

(5) That in the organisation of the army in India **the present mischievous principle of maintaining a fixed proportionate strength of the British element to the Indian troops be abandoned,** the numbers of the standing army should be restricted by the requirements of Indian national defence; its recruitment achieved by voluntary enlistment in India; its pay etc., being determined and regulated exclusively by Indian authorities.

(6) That the **existing British element should,** in conformity with the principle of the Government of India Act of 1919, **be progressively reduced, so that in 10 years' time we have no British troops** serving in India at the cost of India, **and no home military charges** except possibly on account of stores not producible in the country. This would mean a saving progressively rising by two crores a year, till in course of time this charge is utterly extinguished.

(7) That the army in India should be re-organised so as to have (*a*) a small but well-equipped regular standing army, ready at any moment to take the field; (*b*) a distinct and larger strength in *reserve*, formed out of time-expired men of the regular army and other units recruited from towns and villages of the so-called martial races, which could be mobilised at short notice for military operation, say 350,000 men. (*c*) **And finally there**

should be the still larger reserve of the entire population of military age, 18-40, raised by conscription for two years' service with colours, and thereafter a fortnight's duty in camp. This is necessary in view of the demands of national defence, but not over-important, if the growing strength of the feeling for universal disarmament is to be trusted. Rs. 5 crores a year, however, may be provided for such reserves.

(8) That as a measure of education for the Indian people and in exchange for the substantial reduction of the standing army proposed here, the Indian Government may institute an Indian navy, costing not more than Rs. 5 crores per annum in recurring charges, the capital outlay for building ships being considered as an unproductive debt and treated accordingly, always provided that the building, equipping, manning and controlling of this portion of ourarmed forces shall be vested exclusively in the Government of India.

(9) That the unproductive debt incurred for and on account of and during the last war and after by the Government of India, not being properly a charge incurred for Indian benefit, should be taken over by the British Government.

(10) That in order to obtain stores more economically for the Army, the Government of India should establish a large scale arsenal and workshop, under the control and direction of their Commerce and Industries Department, to manufacture and supply all kinds of civil and military stores, ordnance, arms and amunition and equipment.*

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* These recommendations are taken substantially from the Memorandum for Retrenchment, submitted to the Indian Retrenchment Committee by the present writer in 1922.

If these recommendations are adopted the change in the military budget was estimated in the Memorandum to be:—

(In crores of rupees)

Military Budget 1922-23		Military Budget after the reforms suggested	
Standing Army :		Standing Army ...	15·00
Effective	45·28	First Reserve ...	10·00
Non-effective	4·85	Territorial reserve ...	5·00
Home Military	17·35	Navy and Air force ...	5·00
Marine (net)	1·37	Arsenal, &c.	3·00
Military Works	4·65	Extra Interest ...	1·00
Extra Interest	17·14	Home Charges ...	10·00
	90·64		49·00
Less Receipts	5·64	Less Receipts ...	4·00
	85·00		45·00

CHAPTER III

Maintenance of Peace and Order : Departmental Expenditure

Our second group of public expenditure includes:—

(1) Expenditure on Courts of Law, Police, and Jails ; (2) General Administration, under which we may include expenditure connected with the collection of Revenue; Salaries and expenses of civil departments, and similar other expenditure;* (3) Political expenditure, comprising expenses of legislative machinery, central and local, representation of the Government of India abroad by Political Residents, Consuls and Agents, and payments made under treaty obligations to Native States or Frontier Tribes, or the Subsidy to the Amir of Afghanistan.† (4) Non-effective charges, including Pensions, whether Territorial and Political Allowances, or superannuation allowances which are called Pensions proper, Furlough and Absentee allowances ;‡ (5) Miscellaneous charges, including Refunds and Drawbacks, Assignments and compensations, which are not really expenditure but excess collection of revenues that have to be returned.

Following our general treatment, we shall discuss first the principles governing this kind of expenditure, next give an historical outline of Indian Public Expenditure under these items, with such reflections and suggestions as may appear necessary.

I.—Expenditure on Justice, Jails and Police

Public expenditure on the administration of Justice forms an integral part of public economy in all modern states. The maintenance of a judiciary is not merely a symbol of Sovereignty ; it is indispensable under the existing social organisation. The progress of civilization has transferred the Ad-

* The heading Salaries and Expenses of Civil Departments in the Accounts of the Government of India includes most of the items classed above in sub-headings other than (2). We have elsewhere given reasons to show why that classification is not desirable. The scheme here adopted is also explained in principle there.

† The Welby Commission Report, as already observed, included political charges under the general heading of defence. "Political service represents the cost of the Foreign Office in India. The charges included in this chapter belong to foreign policy, rather than to domestic administration; we therefore class them under the head of Defence and Foreign Affairs. They comprise charges incurred on the North-West Frontier, Frontier levies, political subsidies to the Ameer and others and special mission" (para 229 Majority Report). It will be noticed that the group including political charges, as given by us is much wider than the group conceived by the Welby Commission. Besides, there would be some affinity between political and military expenditure if we could be assured that all expenditure on the Foreign office results in avoiding or accelerating military charges. As a rule, however, the ordinary expenditure on foreign relations is for the preservation of peaceful intercourse between the nations of the world. The moment that intercourse is stopped, the bulk of the foreign office charges come to an end. It would be therefore better to class such expenditure along with the political expenditure at home under classes of items indicated above. Besides, in India the greater portion of the political charges in connection with the Native States are really more like domestic administration charges than anything else.

‡ It would add very much to the clearness of the discussion could we but separate the Pensions charges of each department and consider them along with the expenditure of that department. But it would be practically hopeless to try and make such a distinction.

ministration of Justice in Aryan countries from the locally elected, and often unpaid, officers, to the present day highly centralised, monopolised, overpaid system of judicial administration. The transition was no doubt inevitable, and possibly beneficial. The political re-grouping which substituted the highly complex modern Empire in place of the self-governing Village Community of the ancients could not be compatible with an administration of justice left to the local units guided by local customs. With the change in the administration of justice came a change in the spirit of the laws. Instead of the independent, isolated customs of each self-contained community, there grew up an elaborate, intricate system of codified laws, administered of necessity by highly trained legal artists. And these artists must be paid, when appointed administrators of law, not in proportion to the service they render, but in accordance with the emoluments they forego by giving up their private practice at the bar. This is not so common in other Aryan countries as in England and the countries adopting the English ideas of political civilization. In other countries the Advocate has not quite succeeded in effacing the Jurist. But when the judges are made the interpreters as well as the guardians of the constitution, it follows that a certain amount of fearless independence must be postulated in the choice of the judicial officers. Hence in these countries they have been obliged to adopt the double expedient of paying very high salaries to competent, independent men to become Judges, at the same time dissociating the Judiciary from the Executive authority of the State. High Judicial office thus comes to be reserved more as a prize for successful advocates when they retire from the active practice of law than as a matter of course for the ordinary hierarchy as provided in other administrative departments.*

With regard to the public expenditure on Police, we have already observed elsewhere why we cannot regard this expenditure as on a level with the expenditure for National Defence. Police charges are in reality an appendage to the judicial expenditure. As the army is the ultimate appeal of the community *vis-a-vis* other communities organised as States, the Police is the ultimate appeal of the community against each of its members,—the citizens. All the reasons which require the expenditure connected with the

* The distinction between the jurist and the advocate, irrelevant otherwise, is useful in this connection in so far as it draws attention to the increase in cost of judicial administration entailed by this system. The figures representing the cost of the judicial and police services, as well as the punitive organisation of jails and reformatories, represent only a small fraction of the total cost to the community resulting from this system. The high fees paid to counsel, though impossible to be estimated accurately from such meagre records as the income tax returns might furnish, must be regarded as a net tax on the community indirectly levied by the legal profession for its services, in no respect differing from the duties levied for purposes of protecting the industries of a country on similar articles imported from abroad.

It may be added here that the Indian High Court Judges—and *a fortiori* all lower judicial officers—cannot quite claim the independence characteristic of the judiciary in England. The judges are appointed in India during the pleasure of the Crown and not during good behaviour as in England; a good proportion of them consists of civilians who have been accustomed too long to obey their superiors to become independent—as judges should—all of a sudden; and the chances of promotion to still more imposing executive offices expose them to just a suspicion that all judges cannot afford to be inconveniently independent.

National Defence to be met out of the funds of the central government suggest that Police charges be met out of local funds, wherever such a distinction is possible. Police activity and utility are essentially local, and must therefore be paid out of and controlled by the local authority.

The theory of Prison charges, or punishments in general, acceptable to-day demands that all prison organisation should be so framed as to wean the criminal from his criminal tendencies and make of him a useful member of society. Crime must be regarded as an indication of insanity, not an occasion for organised revenge. Legal punishment should not be the result of the social instinct for revenge, but rather the offspring of pity for the erring members of society. In all countries claiming to be civilised, prison organisation, work and discipline should be so arranged, no matter what the cost, as to eradicate the criminal tendency.

II.—Revenue to Finance this Expenditure

As regards the sources, from which this branch of public expenditure ought to be defrayed, there seem to be three possible alternatives: Judicial revenues in the shape of Court Fees and Stamp Duties on legal documents; Fines and Penalties imposed by the Civil as well as the Criminal Courts; general taxation of the community at large. No authority has explicitly declared that the administration of justice should be conducted on the commercial principle of making the department pay its own way from its revenues, if not to leave a surplus for the general benefit. Without accepting this commercial principle, it may yet be admitted that the system of making litigants pay for their suits would tend to discourage unnecessary litigation,—by no means an unknown or uncommon complaint in our highly civilised states founded on commercial morality. But it has the undeniable drawback of deterring parties from seeking their rights if the cost is too great or even important enough for them to think before instituting a suit. Besides, there would always be the possibility of making a really vexatious litigant pay for the misuse of the common privileges of citizenship by extra taxation on too frequent a litigation without basis in fact or law.* If the expenses of the judicial department are paid out of its own revenues, the officers concerned would be exposed to the serious temptation of increasing their emoluments by showing a growing source of income from their department, not to mention the most serious disadvantages of the system that a payment of judicial officers by a percentage on receipts would afford an unfair advantage to the rich suitor as against the poor. We cannot look upon judicial fees quite in the nature of penalties paid by the party at fault, even supposing that were desirable. Civil suits do not necessarily originate in the dishonesty or culpable intentions of one of the litigants. Modern laws leave considerable room for a genuine difference of opinion. Witness, for example, the frequent cases in which the decisions of the High Courts are reversed by the Appeal Courts. And in criminal justice the condition of paying fees before institut-

*The frequency of too many appeals, which is such a predominant characteristic of the Indian judicial system, might be taxed much more effectively and progressively if it can be proved to have occasioned misuse.

ing prosecution would result in reversing our modern civilization, and compel us all to be duellists by necessity. Fines and penalties in criminal cases may, indeed, be regarded as another aspect of fees ; and a system of graduated money payments for different crimes may have its own recommendation to a reformer of modern criminal jurisprudence who would abolish all physical punishment, from flogging to beheading. But most of the criminals would be unable to bear this alternative ; and there are some crimes, like murder or rape, which the social conscience would have to be educated much more before it would consent to accept pecuniary compensation for. The majority of mankind still consider these to be irreparable injuries.

But because we cannot accept a system of fees, fines and penalties as the only source of judicial expenditure, it does not follow that the judicial fees should be utterly abolished. Under proper precautions they would be a salutary deterrent to unnecessary litigation, at the same time acting as a harmless source of public revenues. When levied upon documents of a legal or commercial character, the stamp fees would in no way be burdensome. Apart, therefore, from such service, as the receipts of the judicial department in the shape of fees etc. may render to the public exchequer, the cost of this department must be borne by the public purse. And that cost is bound to grow as population and the complexity of social relations increase. Any section of that cost, unexplained by these factors, will have to be explained by the excessively high salaries paid to the judicial officers in countries adopting the Anglo-Saxon principles of judicial administration. The only way to reduce the cost, when it becomes disproportionate to the service or benefit rendered, is to encourage arbitration, to organise a system of voluntary justice by locally elected tribunes of the people, by reverting in fact to the ancient principles of gratuitous judicial service, in so far as it would not be inconsistent with our modern civilisation. This expedient, so long a characteristic of the English judicial system in the person of the Justices of the Peace, may reduce the cost to the State without being a real relief to the community, unless its concomitant counterpart—**the nationalisation of the legal profession**—is concurrently accomplished. The indirect but heavy tax upon the community in the shape of practitioners' fees can only be remedied if the professional lawyer is made a public servant, guaranteed a living wage, and without any temptation to distort the law or obfuscate the public conscience.*

* That the so-called Learned Professions of Law, Medicine and the Church are not necessarily capitalist in their essence, is evidenced by the existence of Established Churches in many European countries, and by the first rudimentary attempts contained in the British National Insurance Act, as regards the "Panel Doctor." Law as a science will never be properly studied; social psychology never clearly analysed ; the scandals connected with the present legal profession, which every lawyer knows, but must not mention, as much owing to the mistaken notion of an "*esprit de corps*" and the compulsion of his trade union, as owing to the inherent indolence or apathy towards social problems, which our commercial civilization inculcates, will never be removed unless the present high wages of a few artisans of the legal craft are abolished. By professional etiquette, the lawyer ought to be an aid in elucidating and expediting justice ; by practical exigencies he has come to be the greatest obstacle to the simpler, saner, cheaper and quicker administration of justice. The recent work of Sidney and Beatrice Webb on "*A constitution for the socialist common-wealth of Great Britain*" has an interesting chapter on the reorganisation of the vocational world,

The annexed table shows the growth of public expenditure in India on these three heads since the transfer of the Government of India to the Crown.

III.—Statistics* of Judicial, Police, and Prison Expenditure in India

(N. B.—The figures are throughout in thousands of rupees.)

Year.	Courts of Law.		Police.		Prisons.	
	Gross Expenditure.	Receipts.	Gross Expenditure.	Receipts.	Gross Expenditure.	Receipts.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1861-62	1,95,12	51,15	2,16,31	...	...	...
1866-67	2,39,77	62,70	2,26,29	18,81	...	...
1871-72	2,27,38	37,31	Included under Provincial Charges.			
1876-77	3,27,58	78,98	2,15,80	6,42(?)	...	...
1881-82	3,23,27	67,74	2,55,38	24,80	...	...
1886-87	...	58,71	3,28,50	31,58	...	...
1891-92	2,84,00	37,58	3,86,86	38,15	89,97	31,12
1896-97	3,09,68	35,61	4,15,65	43,69	1,08,22	30,87
1901-02	3,23,65	34,83	3,43,55	44,62	1,15,72	37,50
1902-03	3,32,29	41,00	4,52,38	46,12	1,08,82	35,45
1903-04	3,41,49	38,71	4,63,10	48,45	1,06,96	36,00
1904-05	3,35,73	38,13	4,73,82	49,25	1,06,00	36,81
1905-06	3,61,45	41,65	5,04,52	48,69	1,19,00	37,95
1906-07	3,81,00	41,02	5,53,84	47,14	1,26,46	37,65
1907-08	3,88,86	39,60	5,72,15	23,04	1,28,51	38,16
1908-09	4,13,02	42,01	6,29,43	23,71	1,39,95	36,93
1909-10	4,23,50	44,00	6,33,34	22,34	1,27,95	34,51
1910-11	4,30,00	49,59	6,52,74	23,30	1,27,68	35,66
1911-12	4,47,29	48,54	6,90,44	18,40	1,26,40	38,10
1912 13	4,48,54	52,80	6,98,70	20,33	1,30,05	40,50
1913-14	4,63,21	56,06	7,29,74	19,55	1,47,43	42,06
1914-15	4,93,83	60,68	7,85,55	21,18	1,52,78	44,48
1915-16	5,03,09	62,03	8,03,04	21,48	1,56,37	44,88
1916-17	4,96,05	62,22	8,13,62	23,25	1,62,96	51,85
1917-18	4,98,11	65,27	8,42,56	19,98	1,72,39	56,95
1918-19	5,17,41	63,14	9,16,45	27,87	2,11,42	76,75
Revised Estimates, 1919-20	5,56,84	72,84	9,00,00	25,59	2,34,48	62,04
Budget Estimates, 1920-21	5,75,16	69,70	10,42,90	21,00	2,18,56	62,59

* Since 1921 these departments have been made over to the Provincial Governments under the scheme of the separation of finances, which came into effect with the passing of the Government of India Act of 1920; hence it is impossible to represent these items collectively, as was the case when the entire finances of the Government of India were consolidated into a single national budget. We shall discuss provincial finance by itself later on, and so we may leave these statistics as they are.

The figures given are compiled from the financial statements and the Finance and Revenue accounts of the Government of India. It will be noticed that the figures are not uniform. The separation in the three branches was not recognised in the earlier years, and consequently we have not been able to give the figures of jail expenditure in the early years separately. Finally, in comparing it must be remembered that the figures in sterling for earlier years represent a conversion of rupee figures at the conventional rate of Rs. 10=£1, while since 1901 the conversion is made at the rate of Rs. 15=£1.

This expenditure on Justice, Police and Jails shows, it may be noticed, an increase out of proportion to the increase in population. The following table shows a decennial increase in percentage of population and of expenditure under these heads.

Between 1871 & 1881	population increased	7% &	expenditure	14%
„ 1881 & 1891	„ „	11% &	„	33%
„ 1891 & 1901	„ „	5% &	„	16%
„ 1901 & 1911	„ „	5.5% &	„	25%

This continual tale of growing expenditure was accounted for by several causes, such as the increase in the pay of the subordinate judicial staff &c.

Against this must be set off the following tables which go a long way to show that the Courts of Law in India are self-supporting, if not a source of revenue to the Government.

Receipts* (including Court fees, stamps) and charges connected with the Courts of Law

Receipts.	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Sale proceeds of unclaimed and escheated property ...	1,90,429	2,23,011	2,22,321	2,23,198	2,32,774	4,89,374
2. Court fees realised in Cash	4,19,973	4,53,614	4,65,484	4,51,591	4,63,956	5,29,004
3. General fees, Fines, &c....	33,10,464	35,32,614	36,61,659	41,67,047	44,34,173	5,29,004
4. Other receipts ...	4,79,213	4,50,708	5,05,358	4,38,923	4,75,962	5,32,226
5. Court fee stamps and plain paper ...	4,66,24,121	4,96,88,352	4,88,85,517	5,06,05,217	5,27,70,185	5,24,85,951
Total Receipts ...	5,90,24,200	5,43,48,099	5,37,40,339	5,58,86,892	5,83,77,060	5,86,54,473
Expenditure.						
1. High Conrts, Chief Conrts, Jud. Com. Recorders Courts...	48,12,494	50,90,898	52,33,197	55,50,970	56,64,177	59,20,961
2. Law Officers and Administrators General	24,53,933	30,68,913	29,69,767	26,94,463	28,57,789	33,55,666
3. Civil and Sessions Courts	1,79,02,944	1,83,22,317	1,92,42,488	1,92,01,847	1,98,84,131	2,06,55,848
4. Small Causes Courts	7,94,868	8,12,855	8,30,417	8,31,449	8,40,366	8,47,340
5. Criminal Courts ...	1,45,36,200	1,48,54,314	1,55,83,805	1,56,84,950	1,61,39,549	1,76,43,559
6. Coroners & Presidency Magistrates	3,04,319	3,47,592	3,32,009	3,14,628	3,39,846	3,56,980
7. Refunds	5,19,243	4,57,225	4,55,888	5,18,859	5,59,398	5,58,576
8. Miscellaneous ...	23,381	30,753	35,330	32,366	34,844	32,745
India (Total Expdt.)...	4,13,47,382	4,29,84,867	4,46,82,901	4,48,29,512	4,63,20,010	4,93,71,679

* The latest decennial statistical abstract of the Government of India gives the following totals of the Receipts (under all heads) and charges of judicial administration in India (in thousands of rupees).

Year.	Receipts.	Charges.	Year.	Receipts.	Charges.
1914	5,55,13	5,06,98	1919	6,06,84	5,61,71
1915	5,86,33	5,23,72	1920	7,12,82	6,67,42
1916	6,09,96	5,15,22	1921	7,06,10	6,62,60
1917	6,14,98	5,08,07	1922	8,01,02	6,23,94
1918	5,97,23	5,09,66	1923	8,61,95	6,65,01
			1924	8,80,86	6,82,95

Though this table shows a margin on the receipts side, if we include the receipts from Court Fees, Stamps and legal documents, of nearly two crores, we must remember that the expenditure given above does not include the rent of court houses and the pensions of judges. Moreover, a good deal of judicial expenditure is included under the land revenue charges, which it would be difficult to distinguish from administrative expenditure proper. We cannot, therefore, regard the judicial department of the Government of India as a source of revenue, in spite of its showing a credit balance, though, of course the revenue from Stamps forms a considerable proportion of the total revenues.*

As regards the Police Department, the table in the foot-note † gives an analysis of the items of receipts and charges of that department.

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* Apropos of the Judicial etc Expenditure of the Government of India, the Welby Commission remarked :—

"The increase since 1875–76 (apart from exchange compensation) is 30 per cent. It is without doubt a large amount, but we feel assured no one will criticise reasonable expenditure in improving the administration of justice. We have at the outset to call attention to a fact which distinguishes the chapter of "law and justice", from other chapters of the Indian budget. **The increased grants for this service have been provided without imposing any burden on the general tax-payer**; for the receipts from the Court fees and Court charges have increased faster than the increase of expenditure, and the Law Courts of India are practically selfsupporting............Non-effective service, rents and other expenses not included in that chapter, constituted the sole charge on the taxes, not exceeding probably a sum of Rs. 5,00,000. As the Court fees have been increasing in faster ratio than the expenditure, it seems probable that at the present rate of increase the receipts will ere long balance the whole expenditure on the service."

† Items of Police receipts and charges	1911-12	1912-13	1913-14	1914-15
Receipts.	Rs.	Rs.	Rs.	Rs.
1. Municipal Cantonment and town funds ...	54,634	40,995	40,325	29,239
2. Public dept. private Companies and persons ...	3,89,859	6,67,610	5,32,866	7,86,[illegible]60
3. Presidency Police ...	3,70,760	2,36,929	2,62,918	2,50,690
4. Fees, fines etc	7,44,048	8,03,449	8,11,531	7,32,898
5. Miscellaneous	2,81,764	2,84,609	3,07,425	3,19,631
Total Receipts ...	18,41,065	20,33,292	19,55,085	21,19,218
Police charges ...				
1. Presidency Police ...	32,72,349	31,52,481	33,23,215	34,68,067
2. Superintendence ...	17,60,656	16,75,145	18,24,658	18,04,875
3. District Force	4,80,25,570	4,91,55,704	5,15,83,956	5,39,15,479
4. Govt. Ry. Police ...	17,66,637	17,38,277	15,87,293	19,44,646
5. Criminal Investigation Dept. ...	18,56,407	17,94,234	21,16,907	24,71,350
6, Village police ...	34,40,571	33,81,891	32,99,471	56,85,800
7. Special	85,41,931	85,97,989	83,89,786	86,98,648
8. Cattle Pounds	3,08,969	3,13,173	3,06,425	3,08,898
9. Miscellaneous	34,497	40,762	2,18,694	2,39,281
Total India	6,20,99,687	6,68,46,656	7,29,50,405	7,85,37,049
Total Gross Police Expenditure (India and England)	6,90,44,655	6,98,70,000	7,29,74,850	7,85,55,120

[*Continued on page 111*.

The present organisation of the Police in India dates from 1861, when a wholesale reform was effected in the organisation * of the whole force. The Commission of 1860, appointed to investigate the subject of Police organisation recommended the establishment of a purely civil force, entrusted with all the civil duties of Police, as understood in England after the Police Reform of Sir R. Peel, including duties of Treasury guards and escorts. On the general lines indicated by the Police Act of the Government of India, 1861, the various Provincial Governments enacted their own local police laws, which combined to effect considerable saving in the Indian army expenditure, and which were substantially left untouched till the Police Reform under Lord Curzon. The Report of the Police Commission appointed in 1902, was submitted in 1903.† The Government of India defined their policy in a Resolution issued in 1905. For the higher grades the Commission recommended direct appointment, in preference to the prevailing custom of promotion from the lower ranks, to obtain better qualified officers above Head Constables. The entire force was to be grouped under three divisions, the first consisting of European officers recruited exclusively in England; the second consisting of a provincial service recruited from among the natives and residents of India; and the last the subordinate service totally recruited in India. The recommendations for appointments, grades, and discipline were all accepted in principle. In addition to the ordinary police, the Commission advocated the institution of a special Criminal Investigation Department to take the place of the antiquated Thagi and Dacoity Department. It was meant to investigate crime and detect criminals. It has earned, in the course of its brief existence, the unenviable reputation for efficiency, purchased at the cost of endless worry to inoffensive individuals suspected of political opinion unacceptable in high quarters. By its methods, no less than by its achievements, it challenges comparison with the secret

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Continued from page 110.]

The total cost of the Civil Police to the Imperial and Provincial Revenues is since 1914-15:—

(In thousands of rupees)

1915-16	...	...	5,93,45	1920-21	...	...	9,35,73
1916-17	...	...	6,08,99	1921-22	...	...	10,61,44
1917-18	...	...	6,56,96	1922-23	...	...	10,65,12
1918-19	...	...	6,98,77	1923-24	...	...	10,50,58
1919-20	...	...	7,83,05	1924-25	...	...	9,49,88

According to the latest available statistical abstract (decennial) of the Government of India, there were, in 1924-25, 63 Inspectors and Deputy Inspectors-General, 1,021 Superintendents, Deputy and Assistant Superintendents; 12,999 Inspectors and Sub-Inspectors; 23,045 Sergeants and Head Constables; 2,240 Mounted Constables, and 1,55,813 foot policemen, making a total of 1,96,182 men of all ranks on the civil side. The total cost in all provinces of this Civil Police force was Rs. 10,62,05,635. Of the Military Police there were, in the same year 30,718 men of all ranks, which cost, in addition, Rs. 1,35,02,471, making an aggregate charge on account of the total Police Force of Rs. 11,98,08,106.

* Police Reform was first undertaken in India by Sir Ch. Napier while administering Sind, and was modelled on the plan of the Irish constabulary. For the organisation of the Police between 1861-1914, see the Imperial Gazetteer Vol. IV. pp. 385-396.

† The recommendations of the Commission were made under 127 heads which are summarised above with the utmost brevity.

service of the Romanoffs; and the people in India would probably be not much grieved if it meets with a similar fate.* For the better training of police officers, special schools were to be instituted in each province. The pay of all ranks was at the same time to be increased—a minimum wage of Rs. 8 to be secured to the lowest constable with increments noted below. The recommendations of the Commission, though mostly concerned with the central force, embraced nevertheless the village Police agencies, which were to be improved. Reforms were also suggested in procedure such as the investigation of evidence on the spot, discontinuance of detention without arrest, discouragement of obtaining concessions.

The Royal Commission on the Public Services in India reporting in 1916 made some recommendations of a minor character affecting the pay, pensions, and status of police officers in India. We shall discuss in the next section the most widely contested question of the number of Indians occupying the superior posts in this as in the other departments. We may here only observe that out of a total number of 1,358 posts carrying a salary of Rs. 200 per mensem or more in 1913, only 450 or less than one third were held by Indians: and the proportion rapidly diminished as the salary was increased, being 5 per cent. in posts carrying Rs. 500 a month or more, and about 1 per cent. in posts carrying Rs. 1,000 or more. The pay of the ranks can scarcely be described, under the present conditions of famine prices, as a living wage.† And it may be doubted if even in 1905, when the first changes were made, the increase could have been said to provide a decent standard of living. The low pay of the police has been repeatedly alleged to be a reason of inefficiency, and venality of the Indian Police; but every increase that has been sanctioned has been swallowed to a large extent by the superior European or Anglo-Indian establishment. The Commission of 1916, though urged to recommend a further increase all round, did not however feel justified in accepting the proposal.‡

* See the Budget speech of the late Mr. G. K. Gokhale, 1905. In 1912 (27th February) moving a Resolution in the Imperial Council for the appointment of a mixed commission of inquiry into the operations of the Criminal Investigation Department, the same moderate statesman mentioned instances of two notable Indians, by no means of advanced political views, receiving unwelcome attentions from the Criminal Investigation Department. "There can be no doubt that the Police force, throughout the country, is in a most unsatisfactory condition, that abuses are common everywhere, that this involves great injury to the people and discredit to the Government," wrote the Fraser Commission; and judging from the latest and most unimpeachable testimony, there is little reason to believe that, from the Indian standpoint, the police organisation is in any way better in 1920, except of course that the total expenditure has meanwhile nearly doubled.

† The Scale of pay in the Police Department is :—

	Rs.		Rs.
Constable ...	10 to 12 p. m.	Asstt. Supdt.... ...	300 to 500 p. m.
Head Constable	15 to 20 ,,	Dist. Supdt.	700 to 1,200 ,,
Sub-Inspector...	50 to 100 ,,	Dy. Inspector General	1,500 to 1,800 ,,
Inspectors ...	150 to 250 ,,	Inspector General ...	2,200 to 3,000 ,,
Deputy Supdt...	250 to 300 ,,		

‡ Since the above was written, the Police Department has been made over to the Provincial Government where the cost of the whole department has been very considerably increased, thanks chiefly to the increase in the scale of pay and allowances all round. As usual, however, the increase has benefited the European element in the largest proportion.

The police force as a whole, in spite of repeated attempts at improvements, is not yet above suspicion, both as regards the honesty of its dealings, and the efficiency of its service. The people do not look upon the police as their natural protectors, and they cannot do so as long as the police permit or countenance, even if they themselves do not originate and manufacture, the fabrication of evidence on a scale exposed by the political trials before Sir Lawrence Jenkins in Bengal.

> " The taint of its earliest antecedents" wrote the Government of India, "still affects the morals of the lower ranks; the constable has inherited the reputation if not the methods of the Barkandaz. ... ... The reconstruction of the Police is indeed, merely a step, towards the improvement of the administration of criminal justice in India. Success in that higher aim will depend not only on the qualifications and training of the force, but even more on the honest co-operation of the people themselves in the work of reform ; on the adoption of higher ethical standards, on the diffusion of general education, and especially in its primary branches; on the growth of a genuine public spirit and a sense of common good, and most of all perhaps on the adoption of action in the discouragement, by a more healthy and courageous public opinion, of the vicions practice of resorting to the machinery of criminal courts in order to gratify personal animosity."*

The whole of this condemnation and aspiration may be adopted if it were applied to the entire police force, high or low. The unfortunate consciousness, growing rapidly, of the police force as a bulwark of the alien bureaucracy, tends to widen the gulf between the rulers and the ruled, and renders impossible the indispensable co-operation. **The only way to cure this radical evil is to resuscitate and utilise on a much larger scale the local police agency.** Police expenditure, along with police organisation and control, ought to be transferred entirely to local self-governing bodies. The Government of India would considerably relieve their Exchequer by this means without impairing the efficiency of the force, especially if they retain the right of supervision, and offer the temptation of a substantial subsidy to be distributed according to efficiency. †

Jail Administration in India was governed by recommendations made by the Jail Commission of 1889, as modified by the Commission of 1919-20. The sources of jail receipts and expenditure are detailed in the subjoined table.

Jail Receipts and Charges

	1909-10	1910-11	1911-12	1912-13	1913-14	1914-15
Receipts.						
Sale proceeds of Jail manufactnres ...	29,77,749	30,51,676	32,69,018	34,83,340	37,36,595	38,64,410
Convict Receipts ...	2,63,217	3,11,939	3,33,955	3,40,938	3,89,255	3,55,807

* Decennial statement of Moral and Material progress. Quotation from Government Resolution.

† Under the Reform Scheme, since come into operation, the recommendation to transfer the entire Police Department to the Local Governments is given effect to. But in view of the new financial arrangements the prospects of the Government of India being able to offer substantial inducements to provincial authorities to improve their police organisation seem, to say the least, gloomy in the extreme.

Miscellaneous ...	2,11,358	2,03,262	1,97,342	2,26,659	2,00,836	2,27,788
Total Rs. ...	34,52,324	35,66,867	38,00,315	40,50,937	43,26,726	44,48,005
Charges.						
Jail Manufactures ...	20,96,464	21,31,550	23,37,825	22,38,875	37,52,684	27,74,038
Other Charges ...	90,73,435	89,55,738	86,94,240	92,58,206	1,03,73,791	1,07,80,151
Convict " ...	16,23,487	16,78,524	16,01,477	15,89,958	16,12,205	17,14,226
Miscellaneous ...	2,876	2,444	7,444	6,288	2,512	2,970
Total Rs. ...	1,27,96,262	1,27,68,256	1,24,40,986	1,30,93,327	1,47,41,192	1,52,91,385
Net Exp. on Jails ...	93,83,938	92,01,389	88,40,671	90,42,390	1,04,14,466	1,08,23,385*

If we consider the Jail department independently by itself, it would appear that the expenditure is greater than the receipts of the department. Convicts are employed within the walls of the jails, but sometimes outside work is allowed, as for example when large gangs of convicts were employed in digging the Jhelum canal in the Punjab. Jail products are manufactured in the workshops attached to the jails. The principle governing the employment of prisoners and convicts requires the task to be penal and industrious, though often jail products are excellent specimens of Indian art. Though jail industries are conducted on as large a scale as the circumstances would admit, care is taken to see that jail products do not interfere or compete with the independent work of local traders. To secure this, jail products are largely utilised by the consuming departments of the Government, such as printing, tent-making, or manufacture of clothing.

The report of the 1919 Jail Commission made many recommendations for the improvement in the organisation, discipline, industries, &c. of the prisons in India; but financial stringency is almost everywhere made the excuse for not giving effect to those recommendations.

IV.—General Administration Charges

Our second head comprises expenditure on General Administration. The remarks made in a previous section on public expenditure in general apply with special significance here. The tendency to increase, noticeable in connection with public expenditure generally, occurs here also, and is explained on the ground of an increase in population, and more particularly a change in the conception of the functions of the State. We are discussing separately, in the next chapter, public expenditure for purposes of "moral and material development;" we shall therefore postpone discussion of the latter factor. And as regards the first mentioned ground, increase in population by itself would, at most, justify only a proportionate increase in expenditure, even if we make no allowance for the possible economies due to large scale

* The total cost of maintenance, excluding that of Buildings and repairs, is, since 1914-15:—

(In thousands of rupees)

1915-16	1,00,43	1920-21	1,53,46
1916-17	1,00,49	1921-22	1,67,54
1917-18	97,88	1922-23	1,94,20
1918-19	1,12,62	1923-24	1,68,10
1919-20	1,51,46	1924-25	1,58,81

operations. Besides, leaving out of account for the moment the consideration of a change in the duties of the State, the test of regulating the expenditure by the available income must be applied here, if anywhere, in public finance.*

Under this heading of expenditure on General Administration we include also the cost of collecting revenues and the cost of civil administration.

As regards the cost of collection, the fact must be bone in mind that several important items of public revenues—*e.g.* the receipts from all the public services and monopolies ought to be excluded before we can make any valid comparison.† And a proper appreciation of the proportion that the cost of collection ought to bear to the total revenues could be obtained

* The above grouping is not quite in accordance with the classification adopted in the Accounts of Revenue and Finance of the Government of India, which contains one general head called "Civil salaries and Expenses" lumping together a number of incongruous items. We have given reasons elsewhere explaining why we cannot adopt this classification. Under "Civil Expenditure" the Welby Commission has included :—

1. Interest charges on debt.
2. Collection of Revenue.
3. Cost of Civil Administration.
4. Civil Buildings and Roads.
5. Miscellaneous Civil Expenditure.

We cannot adopt this classification as the group is too heterogeneous, and the various items are really governed by different, often radically different principles of public policy. We consider the whole of the debt charges in a separate chapter to give the fuller treatment which the various kinds of the public debt of India demand. Commercial services including the Post Office, Telegraphs, Railways, and Irrigation are much better discussed in the chapter dealing with developmental expenditure, as also civil buildings and roads, education, ecclesiastical, medical and scientific charges included in the above group. Mint, printing and stationery, too, fall, under our arrangement, under (3) developmental expenditure. The other charges under group (*b*) are discussed in this chapter but under different subsections.

† The Welby Commission (Majority Report) has apparently considered without discrimination the charges for collection along with other charges for general Civil Administration. On this the Minority Report pertinently observes: "The use of the term 'Net Revenue' to mean revenue less cost of collection, as is done in our colleagues' Report, is open to serious objection. Net revenue properly means all money taken from the tax-payer and acquired by the Government in commercial undertakings, or received in the way of interest on investments, after deducting the amount actually returned to the tax-payers, *e.g.*, draw-backs or refunds, the working expenses and interest on capital involved in the commercial enterprises of the Government, and certain cognate sets-off under the head of interest on money temporarily borrowed. The cost of collecting the revenue includes a large part of the salaries of Government officers, and such expenditure should not be withdrawn from a general purview of an increase in expenditure......................... Obviously such additional cost of collection, if treated as a set off to revenue raised, conceals the true rate of increase in the revenue...........and would bring about an actual understatement of the increase in the revenue during a given period.

There are other serious objections to deducting the so-called cost of collecting the revenue in order to ascertain the so-called net revenue. (1) The allocation of charges between the cost of collecting the revenue and Civil Administration has varied from time to time. (2) The amounts charged to collection of Revenue are not regarded as correct by some authorities. (3) These charges do not include the furlough and the non-effective charges of the revenue service. They are therefore incomplete in themselves and do not represent accurately what they profess to be" (para 42).

They also point out the error underlying the Majority remarks that Opium Revenue is ordinary revenue, whereas in fact it is a monopoly profit.

The late Mr. Gokhale insisted again and again on a reform of the account system which would show the net revenue of commercial undertakings of the Government of India, which would exclude the accounts of local funds and similar other changes. Some changes were made in the accounts in accordance with his suggestions. See his speech on the Budget in the Imperial Council and the Financial statement of 1906-07.

only if we make a due allowance for the various kinds of taxes and the different principles on which each is based. It would perhaps be better if we postpone this discussion to the chapter relating to the tax revenues. Here we must call attention to the following facts:—

(*a*) The table appended herewith shows the growth in the cost of collection of revenues and its percentage to the total revenues.

Year.	Cost of Collection.	Total Tax Revenue.	P. C.
	£	£	
1860–61	3,235,714	31,770,769	10·4%
1870–71	3,659,800	36,296,698	10 ,,
1880–81	3,990,005	41,568,041	9·5 ,,
	Rs.	Rs.	
1890–91	4,82,53,500	48,80,26,290	10 ,,
	£	£	
1900–01	3,804,547	39,319,167	9 ,,
1911–12	6,383,531	45,696,778	14 ,,
1916–17	5,435,454	54,864,241	10 ,,
	Rs.	Rs.	
1921–22	16,96,11,395	1,25,13,48,997	13·5%
1922–23	16,87,00,590	1,32,79,00,333	12·7 ,,
1923–24	16,11,57.022	1,35,87,25,056	11·9 ,,

UNITED KINGDOM

Year.	Total Tax Revenue.	Cost of Customs & Inland Revenue.	Percentage of 2 to 3.
1890–91	73,577,000	2,643,447	3·5%
1900–01	109,562,000	2,834,000	2·6 ,,
1911–12	174,642,000	3,919,000	2·2 ,,
1913–14	146,700,000	4,200,000	2·9 ,,

This table shows the cost of collection to be averaging over 12% of the total tax revenues in recent years. In the figures selected we have included the Land revenue, but excluded Opium and Forests Revenue, as these can scarcely be called tax revenues proper. As against this, the proportion of the cost of collection of Customs, Excise, Income tax and other direct taxes in the United Kingdom is relatively insignificant, being less than 3% on an average. This relatively high cost of collection has been explained on the ground, partly, of the large size of the country over which the revenue has to be collected. Besides, items like the land revenue are collected in small amounts from a very large number of taxpayers, which makes the cost of collection relatively high. But even after making all due allowances, the fact remains that the tax-collecting machinery of the Government of India is relatively much more costly than in England.

We have pointed out already in a previous foot-note the difference of opinion arising in the Welby Commission on this question of grouping the figures representing the actual cost of collection. Leaving aside the question of Opium revenue, which has now become of second rate importance, we may notice here that the majority of the Welby Commission would exclude, as we have done, the revenue and expenditure in connection with the forests department. Registration fees and the cost of collecting them have been included by us, while the Tributes from the Native States, which cost very little to collect, have been excluded. The greatest difficulty, however, in this connection is the impossibility of ascertaining the total charges in each case, so long as the pensions and other non-effective

charges of each department are separately paid. There is, thus, room even now for a difference of opinion almost on the same lines that divided the Welby Commission. It would add to the clearness of financial exposition if the total charges in connection with each revenue collecting department were placed under that department.*

As regards expenditure on General Administration, the item so described in the accounts of the Government of India includes:—

		1914-15
		Rs.
1.	Salaries of Viceroys, Governors Lieut. Governors, Chief Commissioners ...	13,26,498
2.	Their staff and household charges ...	20,38,814
3.	Durbar Fund (abolished as a separate item since 1912).	
4.	Executive Councils ...	14,02,732
5.	Legislative ...	4,10,005
6.	Military Secretariat (Govt. of India) ...	4,01,682
7.	Civil and Public works Secretariat. † ...	79,86,892
8.	Tour charges ...	7,21,098
9.	Revenue Bd. and Financial Commissioners...	12,74,670
10.	Commissioners ...	29,09,654
11.	Inspectors-General ...	1,26,126
12.	Land Records Director ...	49,579

It will be observed from the table given in the margin that the "General Administration" account contains a number of items which, under our classification, ought to have been grouped separately. We may regard the General Administration charges as synonymous with the total civil salaries and expenses in order to make our discussion more intelligible. Under that interpretation this account shows an inevitable tendency to constant growth, due chiefly to (1)

* The following table shows the various items of the cost of collection under each revenue head for 1914-15.

Land Revenue Expenditure.	Rs. Crores.
District Adm. charges ...	2·64
Survey & settlement ...	·79
Directorate ...	·06
District charges ...	1·42
Govt. Estates ...	·11
Collection Commission ...	·24
District and Village officers allowances ...	·39
Other Charges ...	0·19
Total ...	5·87

Salt Expenditure.	Rs. Crores.
Establishment ...	·37
Manufacture and Excavation ...	·05
Purchase & Freight ...	·10
Total ...	·53

Excise, Provincial Rates, Customs and Assessed Taxes charges consist of a single item, charges for collection. A good portion of the charges under the Land Revenue is really of a judicial character.

†Details.	£
Legislative Department ...	246,558
Finance " ...	416,842
Military Finance " ...	161,157
Home " ...	353,342
Education " ...	277,201
Foreign & Political " ...	756,686
Rev. & Agricul. " ...	240,306
Com. Indus. " ...	409,951
Translator " ...	7,407
Public Works " ...	370,133
Record " ...	67,398

The Inchcape Commission of 1922-23 give the following items, under this heading, 1922-23.

	Rs.
Governor-General & Staff	12,82,800
Executive Council	5,33,000
Legislative Bodies	8,50,000
Secretariat	70,31,400
Attached offices	11,34,800
Miscellaneous	30,76,000
Expenditure in England	70,37,000
Total	1,98,57,000

13.	Civil Accountant office ...	46,41,372
14.	Paper Currency office ...	8,19,959
15.	Presidency Bank Allowance...	3,82,870
16.	Local Fund office ...	71,492
17.	Reserve Treasuries ...	33,279
18.	Administration charges in England * £ ...	4,07,990
	Total £ 20,48,238	3,07,23,570

the accession of territory, (2) the increase of population, and (3) the multiplication of departments. Among the chief territorial additions to the Indian Empire may be mentioned Burma in 1886-7, and the N. W. Frontier Province in 1900-01. † The data with regard to the population before the Mutiny are very imperfect, but the following table gives a view of civil expenditure and population from 1871. ‡

Year.		Population : Br. India. £	Civil Adm. Expenditure. Rs.	While population increased. between.		Civil expenditure increased. §
1871	...	185,168,435	14,318,943	1871-1881	by 7%	by 5%
1881	...	198,882,817	15,083,036	1881-1891	.. 11%	.. 25%
1891	...	222,240,836	18,900,464	1891-1900	.. 5%	.. 11%
1901	...	231,695,940	20,72,22,720			
1911	...	244,605,940	32,07,74,835	1901–1911	.. 5·5%	.. 50%
1921	...	247,003,393	46,03,23,000	1911–1921	.. 1%	.. 45%

* Details :—Secretary of State 148,090 : Under-Secretary Council &c. Home Establishments Salaries &c. 59,452 : Allowance to Bank of England 60,944 : Charges on Industrial Account 6,412 : Stores 133,092.

† Burma and the North Western Frontier Province.—Two considerable additions of recent years proved financially a loss to the Indian Exchequer as shown by the following figures for a considerable period.

Total Net Cost of Upper Burma.

Year.		Rs.
1885-6	...	63,10,000
1886-7	...	2,06,87,000
1887-8	...	2,61,83,000
1888-9	...	1,68,28,000
1889-90	...	1,33,10,000
1890-1	...	1,08,53,000
1891-2	...	1,36,11,000
1892-3	...	1,17,61,000
1893-4	...	1,08,28,460
1894-5	...	75,98,750
1895-6	...	78,25,000
		14,57,95,210

in all years of which Rs. 8,65,56,500 were due to Military Expenditure in the new province.

North-West Frontier Province.

Year.		Revenue.	Expenditure.	Deficit.
1901-02	...	1,829,547	3,162,022	
1902-03	...	4,159,357	7,620,0:6	
1903-04	...	4,235,806	8,179,664	
1904-05	...	4,273,815	8,421,059	
1905-06	...	4,243,607	8,958,028	
1906-07	...	4,513,119	8,187,412	
1907-08	...	4,664,988	8,326,610	
1908-09	...	4,626,673	9,475,476	
1909-10	...	4,792,763	943,613	
1910-11	...	4,657,428	10,213,529	
1911-12	...	4,614,420	10,386,177	
1912-13	...	5,116,183	11,803,876	
1913-14	...	5,089,797	12,577,296	
1914-15	...	5,154,912	12,696,201	
Total	...	62,072,415	1,29,442,289	5,34,30,100

or a total loss in 15 years of Rs. 5·34 crores.

‡ Figures for expenditure upto 1891 are in sterling equivalent to tens of rupees; and for purposes of comparison we have taken the figures for 1901 at the new rate of £1 Rs. 15. In 1871, the heads included are somewhat misleading, as the classification at that date does not permit a more precise grouping. The cost of collecting revenue is omitted; as also all interest charges, from the view of civil expenditure, though in a proper view the whole of the former and a good proportion of the latter ought to be included. It may also be observed that while the expenses included in the above table are mostly departmental salaries and expenses, the corresponding groups in the English Budget include a number of items of national development.

§ During the war and after, departments and posts have been multiplied with recklessness and indifference. On the financial side, therefore, the Reforms will prove a curse to India if the representatives of the people relax one jot of their vigilance or abate one iota of their criticism. It would be deplorable if the new Indian Ministers prove too ignorant or incompetent to check and control their highly paid European snbordinates. The latter have now no incentive to economy, or even to care-fulness, as not even their *esprit de corps* is to be affected. Nothing has happened in the interval between the first and the second editions of this work to modify the apprehension voiced in this note. On the contrary, the history of Provincial Finance in the six years since the Montford Reforms makes a most gloomy record.

As regards the General Administration, officially so described in the Financial Statements of the Government of India, we may notice here the cost of the Governor-General alone. In the budget of 1926–27 the total cost of this officer is laid down at Rs. 13·37 lakhs, of which 9·9 lakhs was voteable by the Assembly and 3·47 lakhs was non-voteable. This is not all the cost of the Viceroy to India. For there is, besides, the cost of the band and of the bodyguard which are charged to the military budget. In the aggregate the Viceroy costs India some 17 lakhs of rupees per annum, without reckoning the liability for leave during the term of office, passage charges, and initial allowance. In comparison the salary of the Prime Minister of the United Kingdom is only £5,000 per annum, which, after paying rates and taxes, leaves him less than £3,500 or about 50,000 rupees; that of the President of the United States of America is $75,000 per annum, plus a travelling supplement in lump sum of $15,000 or about 2½ lakhs of rupees all told: that of the French President £8,000 per annum, including allowances, and reckoning the French frank at par of exchange. Is the Viceroy more important, or has he any greater responsibility than any of these dignitaries? We can find no justification for these extravagant pay and allowances.

Under this heading of General Administration may also be included charges of the India Office. On the analogy of the charges of the Colonial Office, as well as on the grounds of political justice, Indian public opinion had consistently objected to those charges being included in the Indian Budget. In themselves the total charges of the India Office are insignificant; but we may here point out an objection based on principles of public finance. Such charges, being outside the jurisdiction of the Government of the country on whose account they are incurred, are incapable of being controlled by that Government. And when, as happens in this case, the distant spending body is constitutionally a superior authority to the supreme governing authority within the country, the possibility of control becomes still more remote. Even if the entire expenditure of India were theoretically placed under the control of the representatives of the Indian people, this item of India Office charges would frustrate the efforts of the Indian representatives to control them. The only effective as well as logical solution is to place the India Office expenditure on the British estimates, and the suggestion has in principle been adopted by the Montague-Chelmsford proposals for constitutional reforms in India.* Though the latest Government of India Act, 1920, affords this relief, the creation of the High Commissioner's Office has more than set off the relief thus obtained.

V.—Cost of the Public Service in India

As under this general heading we propose to review the civil administrative expenditure in general, it would not be out of place to say a few words

* See para. 294 of the Report on Indian Constitutional Reforms (1918). But India has to bear the cost of the newly created High Commissioner, the Trade Commissioner, and such of the older items as are not included in the British budget. Under agreement with the Imperial British Treasury, the political expenditure of the India Office, at first fixed at £136,000 for 1920–1925, but since reduced to £113,500, was charged on the British revenues.

as regards the Civil Service of India. It would be impossible to give a historical sketch, however brief, of the evolution of the system of public service in India under the British rule. Suffice it here to say that it is the direct descendant of the Covenanted Service organised by Lord Cornwallis for the East India Company in 1793, and systematised by the Indian Civil Service Act of 1861. Appointments in this service, enjoying a practical, if not a legally secured, monopoly of all the superior, administrative, executive and judicial posts, were originally made by selection or patronage of the Directors of the East India Company. But since 1854 the competitive principle has been accepted for making first appointments, and at the present time by far the largest proportion of the service is thus recruited on the test of a competitive public examination of a prescribed standard.* The principle of selection by examination, once accepted in the premier service, was soon extended to other departments which require specialised training and which are outside the purview of the Indian Civil Service ; and they are now manned by officers, the superior ranks of whom are composed of men selected after a public competitive test.† Since the Report of the Public Service Commissioner of 1887 presided over by Sir Ch. Aitchison, the Public Service of India in almost every department was organised into 3 divisions: (1) the Imperial branch, consisting of men holding all the highest posts and recruited after a competitive examination commonly held in England; (2) the Provincial branch, consisting of men holding appointments specially reserved for that purpose under the authority of the Act

* The organisation of the Indian Civil Service is governed by the Act of 1861 and 1870, and the orders of the Government of India passed on the recommendations of the Aitchison Commission. The whole subject was again reviewed by a Royal Commission which reported in 1916, on which orders were passed by 1921. But the entire organisation was reviewed *de novo* in 1923-24, by the Lee Commission which recommended further substantial improvements. The act of 1915 may also be mentioned, as it gave powers to the Secretary of State to dispense with the examination test in certain specified circumstances.

The C. S. R. define, among other things, the conditions of pay, allowances, leave, pensions, &c., of the public servants.

† The specific competitive public examination is observed, or dispensed with, in the following departments.

Departments with an examination.	Departments without an examination test.	
1. Finance Department	1. Agriculture	10. Bengal Pilot Service.
2. Forest ,,	2. Civil Vet.	11. Post Office.
3. Indian Civil Service	3. Education	12. P. W. D.
4. Indian Medical Service	4. Factory and Boiler Inspection Dept.	13. Railway Dept.
5. Police		14. Registration Dept.
6. Customs Department	5. Military Finance Dept.	15. Northern Indian Salt Dept.
	6. Geological Survey Dept.	
	7. Land Records Dept.	16. Salt & Excise Dept.
	8. Mines Dept.	17. Survey of India Dept.
	9. Mint & Assay Dept.	18. Madras Survey Dept.

Apparently there are only 6 Departments with a specific examination test for recruitment of the staffs. They are, however, the most important, accounting collectively for the largest number of superior posts 79 per cent. of the total. Besides, in other departments like Agricultural, or Civil Vet. Dept. or P. W. D. when a specific test of public examination as a condition precedent to appointment is not insisted on, educational qualifications are nevertheless prescribed and required before appointments can be made. In a few departments, the nature of the service renders an examination test impracticable.

of 1870, and appointed by Local Governments under rules made for the purpose; and (3) the Subordinate branch consisting of low-paid appointments chiefly of clerical or lower ministerial grades. The later commissions have introduced a new distinction between the European or Non-Indian domiciled public servant, who gets overseas allowance, special exchange rates, passage allowance, and an Indian domiciled public servant who gets none of these advantages.

The one most commonly heard complaint against this system of public service is that in the superior branches of the service Indians find a very small share. The following figures show the proportion of Indians (including the Statutory Natives of India) to Europeans and Anglo-Indians in the Public Service on April, 1913.*

Total number of posts with Rs. 200 p. m. or over	11,064
Of these English and Anglo-Indians held	6,491 or 52%
,, Indians held	4,573 or 48%

Of posts	carrying	Rs. 200–300	English	held	12%	Indians	held 64%	A. I.	held	24%
,,	,,	300–400	,,	,,	19%	,,	,, 62%	,,	,,	19%
,,	,,	400–500	,,	,,	36%	,,	,, 49%	,,	,,	15%
,,	,,	500–600	,,	,,	58%	,,	,, 31%	,,	,,	11%
,,	,,	600–700	,,	,,	54%	,,	,, 36%	,,	,,	10%
,,	,,	700–800	,,	,,	78%	,,	,, 14%	,,	,,	8%
,,	,,	800–900	,,	,,	73%	,,	,, 21%	,,	,,	6%
,,	,,	900–1000	,,	,,	92%	,,	,, 4%	,,	,,	4%

The overwhelmingly large proportion of non-Indians in the most considerable and profitable posts in all departments of the public service of the country has provoked energetic protests from Indian public opinion

* The terms, Imperial, Provincial and Subordinate, have no reference to administrative position, but only to differences in ranks and emoluments.

Posts on and under 1,000, Europeans and Anglo-Indians held ...	52%
Posts on and under 1,000, Indians held	48%
Posts on 1,000 or over, Europeans and Anglo-Indians held... ...	92%
Posts on 1,000 or over, Indians held	8%

The total pay of posts held by Europeans ...	Rs. 45,68,985	average pay	933
,, ,, ,, Anglo-Indians ...	,, 6,20,591	,, ,,	390
,, ,, ,, Indians ...	,, 16,95,730	,, ,,	371

Of 414 posts of Rs.	1,000–1,200	English held	339,	Ang.-Ind.—	24,	Indians	51
,, 264 ,, ,,	1,200–1,400	,,	295	,,	28	,,	41
,, 111 ,, ,,	1,600–1,800	,,	97	,,	4	,,	10
,, 183 ,, ,,	1,800–2,000	,,	173	,,	1	,,	99
,, 230 ,, ,,	2,000–2,500	,,	219	,,	4	,,	77
,, 13 ,, ,,	2,500–3,000	,,	131	,,	...	,,	98
,, 33 ,, ,,	3,000–3,500	,,	32	,,	...	,,	...
,, 25 ,, ,,	3,500–4,000	,,	25	,,	...	,,	...
,, 39 ,, ,,	4,000 & more	,,	39	,,	...	,,	...

In 1887 Posts on less than 1,000 p. m. English and Anlo-Indians had	62%	
In 1887 Posts on more than 1,000 p. m. English and Anglo-Indians had	98%	Ind. 2%
In 1897 Posts on under ,, ,, ,, ,,	58%	42%
In 1897 Posts on over ,, ,, ,, ,,	95%	5%
In 1913 Posts on under ,, ,, ,, ,,	57%	43%
In 1913 Posts on over ,, ,, ,, ,,	93%	7%

ever since the latter has had an organisation in the national Congress. The wastage and un-economy of manning the public service by aliens were realised by leaders of political thought and national consciousness like Mr. Naoroji or Mr. Gokhale, and expressed on more than one occasion in the concrete terms of £ *s. d.* Their protests took the constructive shape of a suggestion for simultaneous examination, which was accepted in principle by the Parliament in 1893; but no definite steps were taken, and the resolution remained a dead letter. Twenty-five years later, the Montagu-Chelmsford proposals for constitutional reforms in India declared that the success of the new policy of progressive Self-Government in India "must very largely depend on the extent to which it is found possible to introduce Indians into every branch of the Administration." As a consequence, a certain rate of accelerating Indianisation of the Public Services was accepted by the Government, which, however, did not prove satisfactory to the new Assembly; and the latter resolved "that enquiries should, without delay, be inaugurated as to the measures possible to give further effect to the.........increased recruitment of Indians for all India services".

The Scales on which Indians were recruited for the All-India Services at the time the Lee Commission reported

INDIAN CIVIL SERVICE

37½ per cent. rising by 1½ per cent. annually up to 48 per cent.

INDIAN POLICE SERVICE

33 per cent. in provinces other than North-West Frontier Province, and Burma. For North-West Frontier Province proportion is restricted to 10 per cent. and for Burma to 22 per cent., of which at least 15 should be Burmans.

INDIAN FOREST SERVICE

The percentage of direct recruitment of Indians has been fixed at 40 for India, and 25 for Burma, for a period of five years from 1921. This includes Indians recruited both in England and India. In addition recruitment by promotion from the Provincial to the Imperial service has been fixed at 12·5 per cent. of the posts in the Imperial Service.

INDIAN AGRICULTURAL SERVICE

Composition of the Service to be worked up to 50 per cent. Indian by appointment of Indians, as qualified candidates become available. No definite scale of annual recruitment has been laid down.

INDIAN VETERINARY SERVICE

Composition of the Service to be worked up to 50 per cent. Indian by appointment of Indians, subject to their attaining the requisite standard of efficiency. No definite scale of annual recruitment has been laid down.

INDIAN EDUCATIONAL SERVICE: MEN'S BRANCH

The general rule is that in regulating annual direct recruitment 50 per cent. should be Indians, until 50 per cent. of the composition of the Service is Indian. Indians transferred in posts transferred from the Provincial to the Imperial Service are not included in this 50 per cent. No definite percentage has been laid down for Burma.

WOMEN'S BRANCH

No definite percentage has been fixed.

INDIAN SERVICE OF ENGINEERS

50 per cent. recruited in England, and 50 per cent. in India. Of the 50 per cent. recruited in England 10 per cent. must be Indians. For Burma the percentage recruited in England is 67 instead of 50.

INDIAN MEDICAL SERVICE

The recruitment ratio fixed in 1915 was 2 Europeans to 1 Indian. Proposals to increase the ratio of Indians are at present under discussion.

The Lee Commission recommended an acceleration, which, in 15 years, would make the entire cadre of the Indian Civil Service consist of Europeans and Indians in equal proportion with like changes in other services.

As if to counterbalance the concessions to Indianisation so far made, they have curtailed very materially the rate of fresh recruitment for the superior services. As Sir R. Craddock observes, in his minute to the Report of the Lee Commission, "Upto the war, the number of Indians who entered the Indian Civil Service through the open competition in London averaged $5\frac{1}{2}$ a year out of an average number of about 53 vacancies, or under 7 per cent. The war completely disturbed all previous recruiting arrangements, and when, under the Montagu-Chelmsford scheme, the ratio of Indian recruitment was fixed at 33 p. c. rising by $1\frac{1}{2}$ per cent. a year to 48 per cent. ...... there were large arrears to be made up, and the numbers recruited each year have been in no settled ratio, as the following figures will show.

Year.	British.	Indians.	Total.
1915	11	3	14
1916	4	5	9
1917	2	4	6
1918	...	9	9
1919	62	39	101
1920	44	6	50
1921	30	25	55
1922	9	24	33
1923	21	15	36
	60	64	124

The salaries and allowances of the public services were very considerably increased in the decade 1914-24, with further advantages in the shape of more liberal pension rules, leave rules, and passage allowance. An idea of the increased cost of the public service in India may be had from the following summary given by the Indian Retrenchment Committee of 1922-23—

"The total staff paid from Central Revenues, excluding staff employed Railways, has increased from 474,966 in 1913-14 to 520,762 in 1922-23, an increase of 9.9 per cent. made up as follows:—

Military Services.	Numbers employed 1913-14.	1922-23.	Per cent. increase.	Total Pay & Allowances. 1913-14 (000 omitted) Rs.	1922-23.	per cent. increase.
Army	301,502	306,750	1.7	12,94,07	25,49,19	97.0
Royal Air Force ...	...	3,143	...	...	57,04	...
Military Works ...	2,427	3,304	36.2	38,05	66,39	74.5
Royal Indian Marine	2,138	2,320	8.5	13,42	27,10	101.9
Total ...	306,067	315,517	3.1	13,45,54	26,99,72	100.2
Civil Service.						
Officers	2,944	3,414	16.3	1,76,61	2,75,49	56.2
Clerical Establishment	48,740	71,098	45.8	2,36,06	5,62,69	138.3
Industrial, Technical &c.	64,672	71,924	11.2	2,03,39	4,18,59	105.7
Menials	52,543	58,809	11.9	58,98	1,18,47	100.9
Total ...	168,899	205,245	21.3	6,75,14	13,75,24	103.7
Grand Total ...	474,966	520,762	9.9	20,20,68	40,74,96	101.3

The following further analysis of this expenditure, separating pay proper from allowances, for the Civil as well as the Military Services, given by the same authority, cannot fail to be interesting:—

(000 omitted)

	Military Services 1913-14.	1922-23.	Increase.	Civil Services 1913-14.	1922-23.	Increase.
Pay Proper ...	12,13,75	23,67,91	11,54,16	5,85,37	11,97,60	6,12,23
Special Pay or Duty Allowance ...	84,63	1,19,29	34,66	4,22	16,25	12,03
Compensatory or loc. allow. ...	1,44	1,40	4	13,51	29,93	16,42
House-rent ...	8	1,76	1,68	5.42	14,98	9,56
Travelling Allow. ...	30,59	70.01	39,42	35,09	69,97	34,87
Other Allowances ...	15,05	1,39,35	1,42,30	31,51	46,49	14,97
Total ...	13,45,54	26,99,72	13,54,18	6,75,14	13,75,24	7,00,09

And as if these increments and advantages were not enough, the Lee Commission made recommendations for further improvements all round which may be exampled by the following.

Indian Civil Service

(The Pay is in rupees per mensem)

Year of Service.	Basic Pay (Present and Proposed.)		Overseas Pay.		Total Pay.				Additional advantage resulting from remittance at 2s. when exchange is at 1s. 4d.
					Present.		Proposed.		
	Junior.	Senior.	Present	Proposed.	Junior.	Senior.	Junior.	Senior.	
1	2	3	4	5	6	7	8	9	10
1	450	...	150	150	600	...	600	...	...
2	500	...	150	150	650	...	650	...	...
3	550	...	150	150	700	...	700	...	...
4	600	...	150	150	750	...	750	...	...
5	650	1,000	150	150	800	1,150	800	1,150	75
6	700	1,050	150	150	850	1,200	850	1,200	75
7	750	1,100	200	250	950	1,300	1,000	1,350	125
8	800	1,150	200	250	1,000	1,350	1050	1,400	125
9	900	1,200	200	250	1,100	1,400	1,150	1,450	125
10	1,000	1,275	250	250	1,250	1,525	1,250	1,525	125
11	1,100	1,350	250	250	1,350	1,600	1,350	1,600	125
12	1,200	1,425	250	300	1,450	1,675	1,500	1,725	150
13	1,300	1,500	250	300	1,550	1,750	1,600	1,800	150
14	1,300	1,600	250	300	1,550	1,850	1,600	1,900	150
15	1,350	1,700	250	300	1,600	1,950	1,650	2,000	150
16	1,350	1,800	250	300	1,600	2,050	1,650	2,100	150
17	...	1,900	250	300	...	2,150	...	2,000	150
18	...	2,000	250	300	...	2,250	...	2,300	150
19	...	2,050	250	300	...	2,300	...	2,350	150
20	...	2,100 (2,150)*	250	300	...	2,350 (2,400)*	...	2,400 (2,450)*	150
21	...	2,150 (2,200)*	250	300	...	2,400 (2,450)*	...	2,450 (2,500)*	150
22	...	2,200 (2,350)*	250	300	...	2,450 (2,600)*	...	2,500 (2,650)*	150
23	...	2,250 (2,400)*	250	300	...	2,500 (2,650)*	...	2,550 (2,700)*	150
24 and over ...	...	2,250 (2,500)*	250	300	...	2,500 (2,750)*	...	2,550 (2,800)*	150

Column 10 shows the advantage expressed in rupees resulting from the concession of remitting overseas pay at the privileged rate of 2s. the rupee. This advantage is not fixed, but varies with the course of exchange. The actual value of it expressed in rupees will be more when the exchange value of the rupee is lower, and less when it is higher. All other services have similar increases.

* In Madras only.

The total cost of their recommendations being given effect to has been worked out by the Lee Commission themselves as follows :—

Estimate of the Cost of the Recommendations in the Report*

Note.—All the following calculations are based on exchange at 16*d*. the rupee. With a higher exchange, the cost will diminish.

Immediate Increased Cost (First Year of Introduction.)

Pay and remittance concessions.	I.C.S....	... 18·6 lakhs	The total cost may increase *slightly* in the next few years, as it is based on present strength, and owing to almost complete cessation of recruitment of Europeans during the years of the war, there is now a shortage of officers in the sixth to ninth years of service, as well as an excess in the first four years of service. The latter get no immediate benefit from our proposals, but will begin to do so shortly. The excess will, however, be soon counterbalanced by savings following from retirement of European officers and their replacement by Indians.
	I.P.S....	... 12·7 „	
	I.M.S. (Civil) ...	7·0 „	
	I.E.S. (Men) ...	3·3 „	
	I.F.S....	... 3·4 „	
	I.S.E....	... 10·9 „	
	I.A.S....	... ·8 „	
	I.V.S....	... ·4 „	
		57·1 lakhs.	
	Other services (approximately)	13·0 to 15·0 lakhs.	
	Total (approximately)	70·1 to 72·1 „	
Pensions ...	... Uncovenanted service.	1·2 lakhs	This amount will increase by 1·2 lakhs every year till it reaches its maximum, which may provisionally be put at about 19 lakhs.
	I.C.S. officers holding high posts.	·18 „	This amount will similarly increase by ·18 lakhs every year till it reaches its maximum of about 2¾ lakhs.

* *Note*.—" (1) It is not possible to estimate the *ultimate* cost resulting from the recommendations as regards pay and remittance concessions, as it depends on two variable factors: (*i*) the number of Europeans that will be employed in service in those departments where the recruitment is proposed to be left to the Local Governments, and (*ii*) the rates of pay that may be fixed by Local Governments for them. The extra cost of our recommendations is, however, bound to be partly counterbalanced by savings in overseas pay, resulting from the replacement of Europeans by Indians. It has been roughly estimated that the ultimate cost of Indian Civil Service and the Indian Police Service (when the cadres consist half of Europeans and half of Indians) will compare with the present cost (including cost of concessions recommended) as follows :—

	Present.	*Ultimate.*
(Including cost of concessions recommended)		
Indian Civil Service	328 lakhs	287 lakhs
Indian Police Service	100 „	94 „

(2) The cost of the increase in pensions of Uncovenanted Services will similarly fall as the decreasing number of Europeans in the Service comes to be reflected in the number of retirements, seeing that pensions drawn in England are paid at a favourable rate of 1*s*. 9*d*. the rupee."

The estimated cost of the total expenditure on the Royal Commission including the cost of printing is Rs. 4,70,000.

Passages	25·0 „	The actual cost may be higher in the immediate future owing to the fact that a larger number of officers than the normal may avail themselves of the concession, but any increase in cost immediately will be counterbalanced by a consequential reduction in later years. The cost will, moreover, go on decreasing proportionately with the decrease in the number of European officers.
	Total (First Year) 96·5 to 98·5 lakhs	The total annual cost of all concessions recommended will gradually rise until it reaches about 1½ crores. It will subsequently fall, as Indianisation makes itself felt.
Other (minor) concessions.	It has not been possible to evaluate these with any approach to precision.	

VI.—Criticism and Suggestions

In spite of these changes, the public service of the country is still very largely in non-Indian hands. The exclusion of Indians from the service of their own country may have an historical explanation. It can have no political or economic justification.

At the present time the case for greater employment of Indians in the Indian Public Service is not only supported by political expediency, but by economic necessity as well.* For with the progress of education, and the growing assimilation of European political institutions, old explanations no longer hold valid.

Whenever a European takes the place of an Indian in the public service without the clearest necessity being proved, he does not merely displace an Indian, but he causes an economic loss to the country. The European requires a proportionately higher salary than the Indian, and all the possible saving from that high salary will be taken away from this country when the European retires to his own. This deprives the Indian industries to that extent of the necessary capital. All the amounts paid to a European public servant of India by way of pension after his retirement are, also, a dead loss to the country. As was repeatedly urged by the spokesmen of the Indian public opinion before the Welby Commission, the significance

* "The points of view," says Mr. Justice Abdur Rahim in his dissenting minute to the Report of the (Islington) Public Services Commission, "from which the majority of the Commissioners and myself have approached the question of employment of Indians are substantially different. The question they have asked themselves is what are the means for extending the employment of Indians. (See paragraphs 35, 36). But the proper stand-point, which alone, in my opinion, furnishes a satisfactory basis to work upon, is that the importation of officials from Europe should be limited to cases of clear necessity; and the question, therefore, to be asked is in which services and to what extent should appointments be made from England."

of the loss to India is not to be measured merely by the amount actually paid in pensions or salaries, but by the disadvantage caused to Indian industrial prosperity for want of such surplus capital. Small in itself, the amount of remittances by active public servants, and of pensions to the retired ones, going to England adds to the wealth of that country at the expense of this, and permits that surplus English wealth to return for re-investment in India, thereby perpetuating the economic slavery of India. It is a common misapprehension in the minds of the Anglo-Indian critics of Indian public opinion to interpret the above sentiment as being hostile to the investment of foreign capital in India. Such investments are unavoidable, and must, in fact, be attracted so long as the undeveloped Indian industries need them. What the Indian public opinion objects to is not the investment of foreign capital as such; nor even so much the tribute levied by the capitalist, though that is of a sufficiently crushing character to call forth protest. The objection is directed really towards the exclusion of Indians from posts of directors and managers in industries financed by foreign capital. Under the present arrangements, moreover, such industries are by no means certain of being operated in the national Indian interest. And above all, the treatment of labour engaged in such industries, as shown by more than one historic dispute between the tea-planters and their coolies in Assam, is a disgrace to any civilised country. We suffered silently or ineffectually because the governing class had the mystic sympathy of the race with the planters, and no such sympathy with their labourers. The parallel of Japan and the U. S. A., borrowing foreign capital to develop local industries, does not hold; for while in Japan and in America the capitalist cannot accept anything beyond the legitimate economic return to capital, which must be employed under the control of the State by the citizens of that State in the national interest, in India the foreign capitalist is considered in the light of a philanthropist, whom it would not do to displease, on whom, therefore, the State control is shadowy, and to whom is left unquestioned the supreme control and management of the industries.*

While the old causes which necessitated the employment of Europeans have weakened or disappeared, new forces have developed making it eminently injudicious to employ Europeans. They have no knowledge of the habits and sentiments, of the language and literature, of the religion and philosophy, of the people they are set to govern;† while an Indian—particularly an

* On this point see the cross-examination of Mr. G. K. Gokhale before the Welby Commission, particularly by Sir J. Peile.

† Attempts are made by Government to remedy the defect of a want of knowledge of the local language in their superior officers, by offering tempting prizes to them for acquiring a knowledge of Indian languages. The degree of proficiency attained is by no means in proportion to the amount of prizes offered, which range from Rs. 500 to 5,000 for each language mastered. As a rule, the European's command of an Indian language would make an Indian fourth form boy blush for shame, if he could not show a better extent of acquaintance with the English language and literature. Besides, the knowledge of the official is transitory, the knowledge of the Indian student permanent. The former is content with a few words to talk to his subordinates, the latter is a type which frequently develops into a Surendra Nath Banerji, a Ravindranath Tagore, or a Sarojini Naidu.

educated Indian—has an instinctive superiority over a European in all these respects. The want of sympathy in the Indian administration, noticed and complained of by even the King-Emperor himself, is all the more accentuated by the growth in recent years of a keen sentiment of Indian nationalism. At one time the European official was supposed, not without reason, to be an impartial judge between the conflicting claims of Hindus and Moslems. But the new nationalism has weakened the old racial animosity in India. Though communal antagonism is not yet extinct, the perception of a common political servitude is fast reconciling the Hindu to the Moslem, and their co-operation and mutual sympathy is being assured by this greatest of all bonds. The English official has lost his old claim to impartiality. He is becoming a party in a racial struggle, a representative of a greedy minority with vested interests, all the more resentful of any attack on his privileges, because he cannot help believing they are unjust. And, finally, the class of Englishmen which now furnishes the bulk of the Indian public servants is a class of failures. The obvious disadvantages of service in India would not tempt men from England so long as they have any chance of reasonable employment at Home, or in the colonies with their kindred. Mr. Lloyd George and men of his way of thinking may believe in the necessity of the British steelframe in India; but no Indian can doubt that the thousands upon thousands who find lucrative employment in India cannot all be similarly absorbed in Britain, if India was once lost. Competitive examinations for public service have too many advantages not to allow us to notice this one particular disadvantage; that under the competitive system India has obtained a decidedly lower class of public servant than was the case under the East India Company, or than is the case under a similar system in England to-day. The modern English official, whether soured by the Indian curry or climate, is unquestionably more greedy, more short-tempered, more hostile to Indians, than his predecessor of 50 years ago, and much less able or intelligent than his confrere not only in European countries, but also in India. Wanting in ability, intelligence, impartiality, or sympathy, there is now absolutely no case for any employment of Europeans in the superior administrative posts of India.

Another complaint of a financial kind against the civil administrative expenditure of India is that the Indian Government pays disproportionately high salaries for very ordinary services. With the possible exception of judicial offices, all other civil offices are better paid in India than even in England, where the scale of official salaries compares most favourably with the corresponding offices in other European countries. Considering the wealth of India as a nation, the salaries cannot but appear extravagantly high. There was indeed some justification to fix these salaries relatively high when the Indian Civil Service was originally instituted. Conditions of life in India, when the English Civilian had to live away from his kith and kin, among a people entirely unknown and unintelligible to him, were so hard as to demand a reasonable compensation, not so much because of the

arduousness of the work demanded of him, as because of the privations suffered by him. There was also the other, and not less important, motive in fixing the salaries at a relatively high figure,—the desire to place the public servant beyond want and temptation. The scandals of the Company's public servants were too recent not to influence Cornwallis and his advisers in fixing the salaries. At the present time, however, these motives are insignificant or non-existent. The hardships of an Indian career have been smoothed away by the development of rapid means of communications, frequent opportunities of leave, and the growing westernisation in outward habits of the advanced sections of the Indian people. It is, of course, still true that the Englishman remains an outsider in Indian society—as much by the social peculiarities of the Indian people as by the race arrogance of the Englishman himself. But that is no longer a factor which ought to be specially compensated for. And as regards the other motive of securing honesty in public service, Englishmen can no longer claim a monopoly of honesty. Indians have learnt their lesson. On the contrary, the Indian Political Service, consisting of political officers in the Native States, leaves much to be desired in rectitude of motives and propriety of methods. It may be that were a very searching inquiry instituted in the fortunes of retiring Indian Political Residents, the owners may not be able to account for all their wealth on a satisfactory basis.* The sale of titles, the grant of industrial concessions and of contracts in the Public Works or Military Supply Department†, to mention only a few of the cases about which rumour has been busy of late, have been known before now to offer temptations to otherwise able men to remain in relatively subordinate but more lucrative posts. In any case the plea can no longer be maintained that the salaries paid by the Government of India are nothing but a reasonable reward at market rates for the services rendered. The legend of the unrivalled efficiency of the Indian Civil Service held the field so long as the members of that service were the only vocal people to advertise their own "*Corps d'Elite.*" If we compare the efficiency of the Indian Civil Service with that of the other great bureaucracy in the world—the Prussian Civil Service—we cannot but admit that for sheer efficiency in work, for mere administrative results, the Indian

* The growth of direct intercourse of the Indian princes with the highest governing authorities is steadily reducing this grave scandal. But the fact that in cases of disputes between the Indian States and the British Government in this country, one of the party is also the judge without appeal, combined with the personal infirmities of the princes, renders the political officer still a very powerful obstacle in the way of honest administration in the States. The Indian political service will remain incapable of redemption so long as the Indian States are not admitted to the rights commonly accorded to independent states by the International Law.

† The scandals of war profiteering by persons in Government service are simply incredible. A rigorous investigation into the present holdings of many connected with the Military Supply and Transport Department, of the various controlling agencies, the ports and Customs Offices, the Railways, etc, would bring to light events compared to which the old East India scandals would be insignificant. The only difference is that at present the Indian willingly pays the European jobber in the hope of mulcting further his Indian brother. In some cases the scandal was too great to ignore altogether, and in 2 cases at least the Government of Lord Reading had to take vigorous action, one departmentally, the other in the ordinary courts of law.

service would be nowhere. And yet the scale of salary in the Prussian service was much lower. Besides, for the kind of work that the average Indian Civilian turns out, the average educated Indian would be equally competent. Except in the highest posts, much of the work is of a routine character, at once the bane and the salvation of a commonplace civilian; and it would be taxing too much the credulity of an intelligent public to say that such mechanical work could not be performed equally well by two men of similar education, one of whom is white and the other coloured. Skin has no relation to efficiency, much less to intellectual eminence.

As is often the case in top-heavy structures, the high salaries at the top are purchased at the cost of miserably low salaries in the clerical branch of the public service. Labour of this description in Government departments has seldom had its claims seriously or sympathetically considered. They lack organisation; they are accustomed to a wretchedly low standard of life; they are wanting in ambition. Consequently every Royal Commission that has been appointed to investigate into the grievances of the public services, every reform that has been suggested or carried out in consequence, has had reference to the superior posts only. A most urgent reform, therefore, in the Indian public service, is the improvement of salaries of the subordinate officers in Government departments at the present time drawing a pay varying from Rs. 25 a month to Rs. 200.* Such a suggestion runs a great risk of being shelved, with every show of sympathy, on the perennial pretext of an insufficiency of funds.† Curiously enough, funds have always been forthcoming whenever complaints have been made about the inadequacy of the higher salaries. Witness, for example, the Lee Concessions passed by the extraordinary powers of the Viceroy. That our suggestion may not be laughed at or shelved as impracticable, we append

* Since the above was written, the pay of all classes of Government servants, including those in the Railway service, was increased by about 100 per cent. 1920 Thanks to a fall of about 20 p. c. in the cost of living in India since 1920, the Inchcape Committee thought the Government might with advantage effect a saving by revising the rate fixed in 1920. We think, however, such economy would be as unjust as it would be unwise, since the increases made in the case of clerks and menials, in 1920, were on the original pay scarcely sufficient to keep body and soul together. If savings must be made, they should be made by cuts in the inflated salaries of superior officers. In the post-war period clerical and menial ranks did receive considerable improvements, as noticed by the Inchcape Committee. The peculiar financial offence of the post-war period is a needless increase of numbers, *e.g.*, there were 1,200 peons in the Government of India various departments, notwithstanding the increase of telephonic and cycle messenger facilities.

†The postal strike of 1920 in Bombay, where if the demands had been granted in full Rs. 20,000 a month would have been added to the Budget at the most. Against the authorities making this doubtful saving the public suffered severe monetary losses, not to mention inconvenience to business, which is immeasurable. The postal committee had, however, recommended considerable increases in the pay of the lower postal staff, which the Government of India have accepted almost in total. The claim for differential treatment by the Bombay postmen was justified on the grounds of the peculiarly onerous conditions of life in Bombay. But Government having remained obdurate in the matter, the strike failed abjectly after lasting 140 days. To the men it meant a disgraceful surrender; but it may be doubted if the Government has not obtained a Pyrrhic victory. The questions will have to be solved in the near future as to whether labour in public departments is entitled to expect a standard contract of service which will offer a model for conditions of employment, and whether Government as an employer is entitled, in the name of public utility and necessity, to resort to every measure it can think of for strike-breaking.

below a scheme * under which a graduated reduction of the higher salaries would afford all the economies desired for making an increase in the pay of the lower paid members of the public service. We proceed in that scheme on the general principle that no official salary, with the exception of the Viceroy, Governors, Chief Judges, and Commander-in-Chief, should exceed Rs. 50,000 a year; that all salaries between Rs. 200 and 500 a month should be left untouched; while salaries over five hundred a month should be taxed or reduced at a graduated rate of from 10% to 50% as the amount of the salary increases. The salary of the Viceroy should be reduced to £10,000 or Rs. 1,50,000 a year; of the Governors to £7,500 or Rs. 80,000 to 1,00,000 a year; of the Chief Justices to Rs. 50,000 a year; and of the Commander-in-Chief to Rs. 75,000 a year. The household and other allowances now granted to the Viceroy and Governors are excessive and ought to be considerably reduced; while the great scandal of travelling allowances to high officers, with such a large amount of public Railways belonging to the State, ought to be finally ended by a system of personal passes on Railways available on duty travel duly certified as such. The Inchcape Committee on Retrenchment noticed the agreement made at the time when the present scales of army pay were fixed, by which it was laid down that 20 per cent. of the officer's pay then fixed would be liable to revision upwards or downwards according to the movement of the cost of living index. If advantage is taken of this proviso in all departments, and if the gratuitous increases made more recently are abolished, the saving on the basis given above, would amount to 10 crores a year in the Civil Services in all departments.

* A—According to the Public Service Commission Report (1916) there were in 1913:—

			Rs.			Monthly Saving
1314	posts with monthly	salaries between	500–600	reduce	10%	65,700
544	"	"	600–700	"	"	32,640
625	"	"	700–800	"	"	46,875
419	"	"	800–900	"	"	33,520
304	"	"	900–1,000	"	"	27,360
414	"	"	1,000–1,200	"	20%	62,100
364	"	"	1,200–1,400	"	"	72,800
242	"	"	1,400–1,600	"	"	60,500
111	"	"	1,600–1,800	"	"	33,300
183	"	"	1,800–2,000	"	"	64,050
230	"	"	2,000–2,500	"	25%	1,03,500
137	"	"	2,500–3,000	"	"	1,05,500
35	"	"	3,000–3,500	"	33%	33,000
25	"	"	3,500–4,000	"	40%	35,000
39	"	"	4,000 & more	"	50%	70,000

Total saving per month Rs. 8,45,845

This saving does not include the saving from the higher offices of the Viceroy and Provincial Governors, contract allowances &c., nor does it take any account of the possible saving from the travelling allowances and other contingent expenses. Acting allowances are all omitted in the above calculation. Nor does this include those numerous additions to offices and departments, which account in the aggregate for Rs. 7 crores per annum in the civil posts alone as compared to 1913–14. If the Indian agency were substituted all round for the non-Indian; if salaries and allowances were fixed in accordance with Indian requirements; and if all the recent increments, additions and special allowances and concessions were abolished, the same principles applied to the military services would mean a further saving of Rs. 12 crores. The annual saving would be Rs. 10,00,00,000 more than ample for the increase in the lower salaries suggested above.

The last explanation that ought to be noticed as regards the cost of Civil Administration in India is the multiplication of departments.* Apart from the great crop of departments and controllers demanded by the exigencies of the Great War, Lord Curzon's administration was conspicuous for addition to the number of public departments, *e.g.* the creation of the Commerce and Industry Department of the Government of India, the institution of the Railway Board &c. His was also the period for a widespread revision of pay of the superior officers if not of the whole superior staff of many a department under the excuse of the need for increased efficiency. We have already examined the degree to which the Indian Civil Service can maintain this claim to efficiency relatively to the other great bureaucracies of the world; and here we need only add that apart from the advertising of the members of that service itself, the claim to efficiency can be only sustained if a comparison is instituted with the corrupt systems of public service in European countries in the eighteenth century, or with those in some of the Native States of India to-day, which offer a convenient foil to show off the excellence of the British Administration such as it is. The Inchcape Committee have recommended a re-grouping of the Departments in the Government of India, by which they calculated a saving could be made of Rs. 14 lakhs per annum.

VII.—Political Charges of the Government of India

The political charges of the Government of India in the official accounts include the following items :—

	(1901–02) (Lacs). Rs.	1905–06	1910–11	1914–15	1926–27 Bud. Est.
Political Agents	38'00	45'77	46'83	49'89	34'74
Diplomatic Consular charges ...	...	...	8'83	12'34	10'08
N. W. Frontier	17'58	34'91	37'17	36'74	(N.E.)81'63
Tibet Frontier	...	1'39	2'49	2'79	3'05
Political Subsidies...	59'9	38'27	49'49	22'06	13'05
Entertainment of Chiefs	1'20	2'65	3'90	3'60	0'99
Durbar Presents and Allowances	1'15	1'19	1'62	1'74	
Refuges and State Prisoners ...	7'34	5'75	5'31	4'70	3'45
Special Political Charges ...	7'37	5'95	'49	13'73	...
Imperial Service Troops ...	...	...	3'58	3'02	6'22
Lighting and buoying Persian Gulf	...	...	...	1'68	0'67
Other Charges	5'74	6'42	6'39	6'73	5'78
Charges in England	£21,742	£5,534	£5,016	£23,975	12'13
Total Political Charges Rs. ...	78,12,365	1,41,51,600	1,54,32,050	1,60,50,775	1,72,57,000

* We have already noticed the fact that the Reforms are from this point of view a costly privilege and may here instance only the addition to the Executive Councils, in the Presidencies of 2 extra members with a proportionate corresponding increase in the Secretariat, the addition of paid Presidents for the Legislative Councils, and the increase of travelling allowances in consequence of the enlarged legislatures. In 1913–14, salaries and expenses of civil departments were 27 crores. In 1920–21, they are estimated at 42 crores, or an increase in 7 years of 55 per cent.

But according to the classification adopted by us, these charges do not exhaust the total of the items which may fairly be described as political. Among other items, we would add to this heading the political pensions and allowances granted by the Government of India, and the allowances under treaties to some Native States. The Legislative charges should also be included. On the other hand the income from tributes, being purely of a political character, should be deducted before we can arrive at the net political expenditure of the Government of India.

The Political Expenditure considered by the Inchcape Committee, we may note, (Budget Estimates of 1922-23) was split up as follows:—

N. W. Frontier Province ...	1,18,51	Nepal	1,19,07
Baluchistan	42,25	Tibet	4,21
Kabul	5,26	Residences and Agencies ...	62,45
Aden and Arabia	4,42	Miscellaneous	10,10
Persia and Persian Gulf ...	22,40	England	12,45
		Total ...	2,93,14

(In thousands of rupees.)

Owing to the splitting up of these small charges, a proper study of the political expenditure of the Government of India becomes difficult. We have already referred to the plan of the Welby Commission, which discussed political charges under the general heading of Defence. But the items enumerated above are essentially of a civil administrative nature, particularly the largest item of the Indian Political Agency charges. This is not so much for maintaining international relations with the Indian States, if one may so describe the relations subsisting in India, as for keeping upto a certain degree of efficiency in the administration of portions of India not directly under British rule.

The political agents in the Indian States are not Ambassadors but Advisors. The Government of India has no anxiety for maintaining favourable economic or political doctrines in the Indian States, since the most considerable of them have no economic independence in internal matters whereby the British interests might conceivably be endangered. The standard of administrative efficiency or excellence is vague; but such as it is, the sovereign power expects the feudatories to conform to it. As there can be no departure in any important question without a previous reference to, and perhaps approval of, the British Indian Government, the analogy of diplomatic relations with the independent states of the civilised world breaks down. On the other hand, if we look to the tributes paid by the States to the paramount government, they seem to be more akin to military subsidies—a sort of an insurance against external aggression and internal revolution.* We cannot compare the present day Indian political tributes either to military exactions by a conqueror, or to the matricular contributions paid by the constituent States of the German Empire to the Imperial

* See Warner: Native States of India.

Government. The tributes do not meet the whole of the Indian political expenditure; but for that reason we cannot describe the total political expenditure as a tax on British India. In the event of the Federal idea being realised, in the event of the United States of India becoming an accomplished fact, it is conceivable that this branch of public revenue and expenditure may disappear altogether, to be replaced by proportional contributions from the constituent states and provinces for the maintenance of the Central Government.* As it is, we must regard both the revenue and the expenditure on this head as in a class by itself which it would be impossible to judge by any known standards of public finance.

The items of political expenditure, such as Durbar charges, entertainment of Rulers and envoys &c. are to a large extent the result of a prevailing misapprehension of the Indian outlook on this point. The Indian traditions of personal rule are supposed to be more fully carried out by these periodical lapses into mediaeval pageantry. If we look only to the few wealthy Indians intent upon title-hunting of the most grotesque description, there would perhaps appear some truth in the conception of Government by pageantry.† But if it is intended to blind the educated and intelligent, or to satisfy the large masses of India, these Durbars fail most singularly. The educated Indian cannot but feel that the inevitable concomitant of each Durbar pageant—the military review—is a sufficient indication of the accepted conception of government in the mind of the ruling class—government by the sword. But for that the Coronation Durbars, which in England are untinged by military symbolism of any kind, would have been free from the humiliating testimony of a nation's misfortune. As for the masses, the personal rule they are accustomed to was one in which the ruler on all great occasions scattered gold and silver coin from his privy purse, and pardoned or hanged offenders at his own sweet will. No one would now advocate the resuscitation of such autocratic prerogatives, however seldom the sovereign might be visiting his distant dominions. Every one in India now realises that the Coronation Durbars are a heavy burden on the people in which the central figure contributes nothing. The gifts of the ruler come out of the pockets of the ruled, so that the traditional Indian idea of royal munificence is unrealised. At best, therefore, we can ignore this item of expenditure as being too insignificant to cause serious anxiety, too infrequent to involve a great hardship.

The item of special subsidy to Afghanistan has disappeared since the treaty of 1921.

*See Indian Constitutional Reforms (1916) paras 205-206. Also the chapter in this work dealing with Provincial Finance. The dangers of provincial contributions have been stated there as fully as was possible. The financial basis of the Federal Government in India would be much sounder if the Central Government is independent of contributions from its constituents. The aim adumberated by the Meston Committee seems to suggest that this system of Provincial Contributions is not intended to be a permanent feature of Indian Finance.

† The prominence given to the relinquishment of titles as an act of sacrifice and protest in the recently adopted non-co-operation programme by the Indian National Congress is an indication of the extent to which such idols of the marketplace can bamboozle such Indians as Mr. Gandhi.

The political expenditure on territorial or political pensions must be explained on purely historical grounds. It consists chiefly of allowances to dispossessed rulers of annexed provinces; but their continuation beyond what is absolutely necessary would mean a burden on the people without any corresponding benefit. At the present time the net result of such pensions is to maintain in affluence a class which never has had, and never can have, any sympathy with the claims of Democracy in India.

Legislative expenditure, which is not included in the ordinary accounts of the Government of India under the heading of political charges, has its own justification.* The precedent of England demanding voluntary public service in Legislative Assemblies was for a long time followed in India. But a system of free political service has its own defects. The class of political aspirants is narrowed down to the relatively rich section of the community; and representatives selected from such a class cannot always be made responsive to public opinion. They would have the standpoint of patrons, not of equals. Besides, gratuitous political service by a class economically independent is bound to amateurish. When we speak of

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***The cost of legislative bodies in the budget of 1926-27**

SUB-HEADS under which this grant will be accounted for on behalf of the LEGISLATIVE DEPARTMENT.

		Actuals, 1924-25.	Budget Estimate, 1925-26.	Revised Estimate, 1925-26.	Budget Estimate, 1962-27.
		Rs.	Rs.	Rs.	Rs.
A.—Council of State :					
A. 1.—*Pay of President*... ...	...	*51,593*	*48,600*	*52,000*	*51,600*
A. 2.—Allowances, Honoraria, etc.	...	1,54,702	1,75,000	1,35,000	1,35,000
TOTAL FOR COUNCIL OF STATE	...	2,06,295	2,23,600	1,87,000	1,86,600
B.—Legislative Assembly :					
B. 1—Pay of President and Deputy President...	*Non-voted*	*43,050*	*33,000*	*54,700*	*52,400*
	Voted ...	2,734	4,000	3,000	...
" 2—Pay of Establishment ...	...	3,000	3,000	13,000	3,000
" 3—Allowance, Honoraria, etc.	...	4,43,498	4,30,850	3,92,300	3,96,850
" 4—Contingencies	...	24,276	26,000	30,000	34,150
FOR ROUNDING...	...	...	+50	...	...
TOTAL	...	5,16,558	4,96,900	4,83,000	4,86,400
FOR ROUNDING	...	...	+500	...	...
TOTAL FOR LEGISLATIVE BODIES	...	7,22,853	7,21,000	6,70,000	6,73,000
Non-voted	...	*94,643*	*82,000*	*1,07,000*	*1,04,000*
Voted	...	6,28,210	6,39,000	5,63,000	5,69,000

the "professional politician" of this class, the term almost always sounds tainted. The honorary professional politician relies on luck, and excels in muddling through. But the professional politician, the community could obtain, if the services were properly remunerated,—not excessively—would be specially trained and thoroughly competent to handle political problems, to indicate broad lines of development, as well as to work them when accepted by the community. Excessive remuneration for political service, we must observe, is likely to be more dangerous than the system of honorary service, as in the former case jobbery would be inevitable and national affairs would be in a worse muddle than ever before. In India, before the passing of the Indian Councils Act of 1909, the Indian non-official members of the Legislative Councils used to be paid a fixed allowance sufficient to meet the travelling expenses and the charges of staying in the Capital during the period of legislative activity.* At the present time, the allowance is not a fixed sum but a rate of two first class tickets for each journey to and from the Capital, with Rs. 20 per diem by way of boarding and lodging charges. If the object of the change is to secure greater economy, we would suggest the introduction of the system of railway passes, available only during the period of legislative activity,—and strictly non-transferable, —together with the system of fixed daily charges. But perhaps the most suitable reform would be **payment of a fixed annual salary to the councillors** to enable them to devote the fullest attention to their legislative and other public duties without a thought of private business. In the present system the assumption of honorary public service is impossible altogether to deny; and, consequently, members cannot always realise that they are at the same time the trustees as well as the servants of the public.

VIII.—Pensions, Furlough and Superannuation Allowances

Under this heading, we shall consider only the civil pensions and leave or superannuation allowances, granted by the Government of India, excluding alike the territorial and political pensions considered in the preceding sub-section, and military pensions, considered in the section dealing with military expenditure in general. The former is a diminishing quantity; the latter raises special problems of calculation and apportionment, which need not be imported into the present section to confuse its general character.

The subjoined Table shows the growth of the gross pension and furlough, etc., charges.

* Under the old system, the allowances were fixed liberally so that poor members, like the late Mr. G. K. Gokhale, could make a living out of it without taint or reproach.

The suggestion of a fixed inclusive salary, say Rs. 10,000 a year at most, would, taking into account all the Provinces, mean an additional charge of about Rs. 50,00,000 a year, against which would be the saving of the present allowances. One is inclined to think that the financial saving would be considerable, and the increase in efficiency would be immense, particularly if the payment is made conditional upon work actually done.

The general theory of pensions from the public purse makes these allowances partly deferred pay, and partly a recognition of the service rendered in the prime of life, and the consequent duty of the employer to provide for the maintenance of the superannuated servant. According to the first view pensions are not wholly paid out of the pocket of the tax-payer, but are to a considerable extent a refund of what the State kept back during the period of active service of the official, augmented by compound interest on the total amount accumulated during the period of service, or by regular contributions. In the absence of a pension provision, however made, the State would have to pay much higher salaries, sufficient in fact to enable the public servant to make a provision for his old age from his own savings.

	Rs.		Rs.		Rs.
1860-61...	58,22	1911-12...	5,41,97	1917-18...	5,50,14
1870-71...	1,67,45	1912-13...	5,54,47	1918-19...	5,49,91
1880-81...	1,89,87	1913-14...	5,77,66	1919-20...	6,41,26
1890-91...	4,67,85	1914-15...	5,76,02	1920-21...	7,27,01
1900-91...	4,03,00	1915-16...	5,55,91	1921-22...	6,24,09
1905-06...	4,37,73	1916-17...	5,59,22	1922-23...	6,70,42
				1923-24...	6,19,80

To leave each individual public servant to make a provision for his old age would expose deserving public servants to all the caprices of trade depressions and financial panics, to the dangers of unwise investment, or undignified penury. Besides, the State must uphold the model to other private employers in the contract of service; and must, therefore, solemnly affirm in its own instance the duty of the employer to provide for the servant on retirement. In no modern state are public service pensions wholly a refund of the amounts kept back by the state, or contributed by the official, during the period of active service.

The Welby Commission discussed the pensions paid by the Indian Government under two divisions: pensions and allowances to officers other than the Covenanted Civil Servants, and pensions to the Civil Servants, their families and medical advisers. The Public Services Commission Report (1916) gives four classes of pensions :—(1) **Compensation pensions**, awarded to officers discharged after not less than ten years' service for reasons of a reduction in establishment and the consequent needlessness of their service;* (2) **Invalid pensions**, awarded to officers retiring after not less than ten years' service, on account of some permanent mental or physical infirmity disabling them from active service; (3) **Superannuation pensions** granted to officers retiring or compelled to retire at a particular age; (4) **Retiring pensions** granted to officers voluntarily retiring after completing a prescribed period of qualifying service. Of these the last two only deserve any particular notice. Before 1921, all sterling pensions were debited to the Central Government, and the rupee pensions to Provinces, with certain exceptions. Since 1921, the charge of the old pensions is left untouched, but the pensions granted since 1st of April 1921 are divided

* The most considerable instance of compensation pensions granted on reduction of establishment to officers found to be superfluous was in the early seventies in the case of the Public Works Department.

between the several governments under which the officer has served in proportion to the length of service under each.

These pensions are calculated on the basis of the average emoluments of the retiring officer during the three years immediately preceding retirement, and in accordance with a scale of so many sixtieths of such emoluments. Usually, ten years' service is the minimum service that was required; and the pension is 10/60 or 1/6 of the average pay during the three preceding years; 15/60 or ¼ after 15 years' service, 1/3 after 20 years' service, and ½ after 25 years' service. To prevent highly paid officers securing an unduly large amount of pension, the rule is laid down as to the maximum pension which any individual officer can draw, being Rs. 5,000/6,000 in the case of non-civilian public servants, £1,000 in the case of Civil Servants, and some special pensions, as in the case of High Court Judges, £1,200 a year.

The Civil Service pensions, and the pensions to the families and medical advisers of the Civil Service, were originally paid out of special funds instituted for the purpose. Between 1868 and 1874 Government took over these funds and assumed the full responsibility for these pensions.* The total sum taken over by the Government from the various funds amounted to close over nine crores of rupees, but on undertaking the obligation to pay a fixed retiring pension, Government decided not to maintain these funds separately. A part of the Medical Fund was used to compound the claims of the subscribers to the fund; but the rest was paid into the Treasury, and there made available either for the current or capital expenditure of the State. As the fund monies, when paid into the Treasury, were not ear-marked to any particular service, it would be impossible to say with any precision how they were actually employed. It has been calculated by the India Office that large sums were advanced during the period from the balances for the construction of productive public works in India, amounting to about 8 crores. Assuming that this represents the balance of the funds taken over, it would, at 4 % per annum, yield about Rs. 28 lakhs a year, which ought therefore to be deducted before we can arrive at the net pensions charge of the Government of India.

A further deduction of four per cent. used to be made by way of contribution from the Civil Service; but this has been discontinued since 1920 and the entire pension is a charge on the State. If we take the average pay of a Civilian at about Rs. 1,500 a month, the 4% deduction during 25

*Medical Retiring Fund, taken over in 1869–70, amounted to Rs. 1·11 crores; the covenanted Civil Service Annuity Fund, taken over in 1874, amounted to Rs. 3·05 crores; the Family Pension Fund amounted to Rs. 5·98 crores taken over between 1882–85. The funds were closed to new interest in 1881. "The annuity of £1,000 given to the civil servant on retirement was originally contributed to the extent of one half from the fund, to which all those in the service subscribed from their salaries, Government contributing the other moiety. In 1862, Government agreed to raise their portion to £600, and in 1871 the Secretary of State permitted all those who had rendered the requisite service and residence to retire on a fixed pension of £1,000 a year, even though their subscriptions might not have been sufficient to purchase an annuity of £400." (Foot-note p. 65 Welby Commission Majority Report.)

years of service would amount to about Rs. 18,000, which, at 5% compound interest, would aggregate Rs. 60,000 or a net yield of Rs. 3,000 a year. This estimate substantially agrees with the one set by the latest Public Services Commission to have been made in India as well as in England.

The Public Services Commission, 1916, with certain specified exceptions, recommended:—

> "All officers should be under the same pension rules. All should serve normally for 30 years, but those recruited after the age of 36 in the services noted, should be granted the concession indicated, (allowed to count not more than 5 years for pension, if they are over 25 years of age at the time of joining) and all should be able to retire optionally on a reduced pension after 25 years' service...............
>
> Maximum limits of pensions should be increased, and special additional pension of the amount stated should be drawn by the office noted. A scheme for a general Family Pension Fund, or for separate funds for different classes of officers, should be worked out on a self-supporting basis.* (Paras 87 to 96 of the Majority Report).

and these recommendations were elaborated by the latest Public Services Commission, presided over by Lord Lee and reporting in 1923-24, as follows:—

Pensions

Indian Civil Service

(xxxiv) "Having regard to the fact that in 1919 officers were relieved of the necessity of contributing 4 per cent. of their salary towards their pensions, no increase is recommended in the ordinary pension of this service, nor is it possible to reopen the question of extending the recent concessions made regarding the refund of past contributions.

(xxxv) Members of the Indian Civil Service, who attain to the rank of Members of Council, should be given an increased pension at the rate of £50 per annum for each year of service, as such, upto a maximum pension of £1,250. Those who serve as Governors of Provinces should similarly be given £100 for each year of service, as such, up to a maximum pension of £1,500 per annum." This was not accepted.

(xxxvi) "No change should be made in the existing scale of invalid annuities so far as the Indian Civil Service is concerned.

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* The following are the Superannuation Funds which still continue yield.

Snbscription to the Military, Military Orphans, and the Medical Fund	Rs.	66,300
Subscription to the Civil Funds	,,	50,000
Subscription under the I. C. S. Family Pensions Regulations ...	,,	10,38,000
Family subscriptions of Native Member	,,	
Contributions for Pensions, Gratuities	,,	
Other receipts	,,	12·89
Total Receipts in India	,,	·17
,, ,, in England	,,	24·62
	,,	42,071
GRAND TOTAL	,,	213,235

Uncovenanted Services

(xxxvii) The present pension of Rs. 5,000 per annum, earned after 25 years' service (equivalent at the privilege rate of 1*s*. 9*d*. to the rupee to £437 10*s*.), rising by Rs. 200 per annum to Rs. 6,000 after 30 years' service (equivalent to £525 per annum), should be increased to Rs. 6,000 and Rs. 7,000 respectively, *i.e.*, to £525 and £612 10*s*. per annum respectively. The maximum pensions, taking account of additional pensions earned by service in higher appointments, will then become Rs. 8,500 (lower grade) and Rs. 9,500 (upper grade), equivalent at 1*s*. 9*d*. to £743 15*s*. and £831 5*s*. per annum respectively.

(xxxviii) The limit of 10 years before which an invalid annuity can be earned in the uncovenanted services should be reduced to seven and the existing maxima raised, as shown on page 41.

Proportionate Pensions

(xxxix) No addition to proportionate pension should be given as compensation for loss of career on voluntary retirement.

(xl) The privilege of retiring on proportionate pension should be extended to officers recruited in 1919 who, through no fault of their own, did not arrive in India before 1st January, 1920.

(xli) No change should be made in the existing rule laying down that war service of officers prior to their appointment does not count as service for the purposes of proportionate pension.

(xlii) The privilege of retirement on proportionate pension should not be extended to members of the Central Services.

(xliii) A rule should be made and a clause inserted in the contracts (see paragraph 74) of all future British recruits to the All-India services, to the effect that if and when the field of service for which they have been recruited is transferred, it shall be open to them either :—

(*a*) To retain their All-India status ;

(*b*) To waive their contracts with the Secretary of State and to enter into new contracts with the Local Governments concerned ; or

(*c*) To retire on proportionate pension, the option to remain open for one year from the date of transfer.

Extraordinary Pensions

(xlvi) A new rule should be made to cover the case of officers killed or injured whilst not actually in the execution of their duty, but for reasons connected with their official position or actions.

Provident Funds

(xlvii) The advisability of substituting provident funds for pensions for future recruits should be carefully considered. If the change is feasible, and acceptable to the services, it should be made without delay. The application of such a scheme to present members of the services should also receive expert examination.

Family Pension Funds

(xlviii) Family Pension Funds, on the lines of that already existing for the Indian Civil Service, should be introduced for the other All-India services as soon as practicable.

(xlix) An independent actuarial investigation into the position of the Indian Civil Service Family Pension Fund should be undertaken as soon as possible.

(l) The existing Indian Civil Service Family Pension Fund should be closed as soon as practicable and a new fund opened, divided into Indian and European branches.

Safeguards

Commutation of Pension

(lii) All officers should be allowed to commute up to one half of their pension, and the rates on which commutation value is based should be revised year by year, if necessary, on the basis of the rate of interest payable on loans raised by Government in that year."

In criticising the pension scheme for the retiring public servants of the Government of India no one can take exception to the duty of the State to make an adequate provision for its servants on their retirement. Not to make such allowance would induce many a public servant to continue in service beyond the period when he can be expected at all to render useful service. Besides, the continuation in service of super-annuated officers would inevitably lead to a most dangerous inefficiency by promotion being blocked to the more deserving of the younger members of the service. Assuming, then, the necessity of such a provision, the next question is, what is an adequate provision for the purpose. The retired servant should be guaranteed a reasonable scale of comfort, not, indeed, according to the official scale of living while in Government service and holding high public office, but in accordance with the prevailing standard of life in the class from which the public servant is drawn. This being conceded, the next question would be whether or not public servants should be expected to make any contribution to their pensions. The original funds being abolished, the majority of the Public Service Commission of 1916 recommended the abolition of the 4% contribution which prevailed in the Civil Service. But the plea that it was the only branch of the public service expected to make any contribution, and that consequently as a matter of justice it should be exempted from making the contribution, does not appear to be very strong. If the Civil Service were the only body of public servants making contributions to their pensions, they are also the only body for whom the highest appointments and other special advantages have been reserved. Besides, the public contribution towards their pension was also the largest as compared to any other department of public service. The State had given them specially advantageous terms by way of exchange compensation allowance, and had assumed a much larger share of the contribution than was originally intended.* Moreover, the family pensions granted to the widows and orphans of deceased civil servants was also a special concession. Finally, the scale of Indian Civil Service salaries was, even before the war, so high, the possibilities of rising to the highest offices were so great, and the consequent chances of a greater saving so evident, that it could not at all seem a hardship to expect this specially favoured body of servants to contribute a

* Originally, the Government contribution was expected to amount to £500 to £600.

moiety of their pension themselves. But in spite of all these arguments, the 4% contribution has been abolished. For our part, we would much rather suggest a levy of proportionate contributions in all the services so as to make the pensions, partly at least, self-supporting.*

. . . .

Before closing this subject we may point out that under the present leave rules the net total service required for qualifying for a maximum pension is only about 20 years; and taking into consideration the average age at which the public servant joins the service, it leaves a very considerable space of time for him to enjoy his pension, at the same time turning his superabundant energy to account in other directions.

As regards the leave rules permitting absence from duty during active service, without going into the details of the regulations we may observe that since 1920 the rules have been very considerably liberalised. All kinds of leave are made into one for which a regular account is opened in the case of each officer. Generally speaking, leave at the rate of 4 in some and 5/22 in other cases of the period of service is admissible on full pay with certain restrictions about the maximum of leave enjoyable at a time. This is practically double or more the old privilege leave. Specially advantageous rates of exchange for remitting leave salaries are also allowed. The general principles on which the leave regulations of the Government of India have been framed proceed on the assumption that service in the tropics is specially arduous to European officers, and that they will not be able to maintain their usual standard of efficiency, if frequent opportunities were not provided to enable them periodically to recruit their health in the more bracing climate of England. Officers are, under this belief, encouraged to take leave as frequently as they can, particularly the European officers: with the result that the non-effective charges of the civil administration are very considerably enhanced. For an officer on leave there must be an officer in active duty who is given acting allowance which ranges up to £800 per annum, or even £1,000 per annum in the case of Indian Civil Servants or military officers in civil employ. There is, therefore, no saving to the Government by these rules relating to leave and furlough. In fact, there is a decided loss, as the Government has to provide a reserve of 40% to meet the extra pressure of work caused by officers on leave. For every five officers that need be employed, the Government of India has,

* The recommendation made above of levying a contribution from public servants to provide for their pension on retirement does not conflict with the previous recommendations of a reduction of salaries all round. The salaries are already so high in comparison to the qualification required or duty exacted that the double reduction will not be impossible to support. The same spirit of economy has dictated the double suggestion. Besides, if carried out, the suggestion will render the disparity between the official splendour and the obscurity of a retired life less prominent and offensive.

We have discussed in the part of this work dealing with public revenue the question of an insurance scheme operated collectively by the State. If we regard pensions as a sort of insurance provision for old age or for the family, the suggestion to make a distinct contribution from the public servants and from the citizens would mean not only a handsome revenue for the State; but would also rouse interest in a department of administration which is at present almost unheeded.

under these regulations to employ seven, the charges of the two extra being entirely or in a large degree waste. *

In regard to the Leave Rules in the Government Service, even the Lee Commission found them to be sufficiently liberal to need no further concession. They have only one paragraph on the subject of leave.

Leave Rules

"The reorganisation of the leave rules for European members of the Government services, carried out as a result of the recommendations of the Islington Commission, resulted in a leave code which is generally recognised to be liberal. The only criticism of it which has been brought before us had reference to the restriction on the maximum amount of leave on average pay which may be granted. An officer is not permitted to take more than 8 months' leave on full average pay at any one time, or to take

*These regulations are obviously framed for the benefit of the non-Indian servants of the State; and it may confidently be said that when the administration is Indianised entirely, these extravagant regulations will not be allowed. The Inchcape Committee give the following statistics of leave admissible in 1913-14 and in 1922-23.

Average leave admissible p. a. during service—

	On full pay.		On half pay.	
	1913-14 Days.	1922-23 Days.	1913-14 Days.	1922-23 Days.
Staff under special Leave Rules ...	24	37	72	49
Staff under Indian or Ordinary Rules	28	26	24	52

This leave is in addition to the casual leave (20 days in a year), gazetted holidays, and the special departmental or general holidays. The following illustrative calculation of the number of men-days lost under these regulations is also taken from the Inchcape Report :—

Bombay General Post Office and Town Post Offices.			Secretariat Department Govt. of India.		District offices.	
Staff.	2,775		81		24	
	No. of days leave admissible per man and days lost.		Days of Leave admissible per man.	Men Days lost.	Days Leave admissible.	Men Days lost.
Casual Leave...	20 ...	55,550	90	20	15	825
Holidays ...	10 ...	27,750	32	1,649	12	888
Occasional Holidays ...	83 ...	83,250	32	1,820	18	1,322
		1 66,650		3,943	...	3,045

The average leave taken per man employed in a year was 60, 45, and 41 respectively.

during the whole of his service more than one eleventh of the period spent on duty plus one year. It has been represented to us that both restrictions should be removed, and that, in addition to leave on average pay equivalent to one-eleventh of the period spent on duty, an officer should be allowed to commute the whole of the leave on half pay, admissible to him under the rules, into half the amount of leave on full average pay. These concessions could only be made at a heavy cost to Government, and, as we consider that the leave rules, as they stand, are sufficiently liberal and are widely recognised as such by the services, we are unable to recommend any extension in the direction suggested."

Further comment is superfluous!

CHAPTER IV

Public Expenditure on Moral and Material Development

Character of such Expenditure

Our third group of public expenditure includes all outlay on projects of the moral and material development of the community. Considered from the popular stand-point, this is the most important branch of public expenditure. The health, comfort, and general well-being of any community depends on the amount of the wealth of its individual members, which is the ultimate condition of public expenditure of every kind. And, it may be safely assumed, no one could object to the steady growth of public expenditure in this direction. If judicially made it is bound, even from the narrowest commercial standard, to repay itself. The modern social philosophy regards society as a conscious, intelligent organism, capable of shaping its own environment, of directing its own growth. The conscious desire of this intelligent organism impels it constantly to seek higher form of self-expression or development, resulting in an ever widening sphere of state activity and public expenditure. Isolated, unconcerted action of individuals would be insufficient to overcome the accumulated force of tradition, prejudice, superstition, or ignorance, which always muster strong against every project of social reform. Instinct seems to abhor innovation; education demands it. To work without a well-conceived plan would, under the circumstances, render individual action liable to the most serious disappointment and defeat. Individual charity, to give an example, is more often misdirected than really beneficial. Exertions for public benefit are often frustrated by the sheer force of the vis inertia; but more frequently it is the selfish opposition of vested interests which makes shipwreck of the best-planned and stoutest schemes of social reform. The opposition of the sacerdotal interest to educational reform, of the landed interest to housing or agrarian reform, of the brewers to the temperance reform, are all *recent instances*, too common in every country to be unintelligible after a bare mention.

Whatever may be the opposing force—ignorance or superstition, prejudice or tradition, vis *inertia* or vested interests—it is clear that no project of social reform can be realised without an organised effort on the part of society collectively. The changes may come piecemeal, but the series, when completed, must fit into a consistent programme. We need not recapitulate in this place the arguments which have led the best contemporary opinion to regard the State as the fittest engine for securing these reforms, the only competent and capable agency to investigate into and determine

upon the conditions under which its citizens shall live and thrive. The State must carefully select and judicially apply the influences which shape society. It may, indeed, be said that in a sense all public expenditure by the State is incurred to gain this supreme end: Social welfare of the community within the jurisdiction of a given state.

There is, however, a fundamental difference between expenditure on defence or departmental administration, and expenditure for development purposes. The first of these is addressed to the evil tendencies of men, exhibiting themselves on an exaggerated scale when manifested under a system of aggressive apprehensions of militarist states. The efficiency of this expenditure consists in repressing or extinguishing the unsocial and inhuman instinct, so that ultimately there may be no justification for such a wasteful expenditure at all. The second class of public expenditure is necessary to maintain the structure of the State, its organisation, its progress as achieved at a given moment. It is conservative, not creative, just as the first kind is protective if not destructive. But these two classes lack that conception of human nature, that desire to social improvement, that effort to advance, to improve, to perfect which is such a marked characteristic of this our third group of public expenditure.

This group of public expenditure would be better considered if we sub-divide it into two constituents: (A) expenditure on moral development, and (B) that on material development. Under the former group (A), the most-important single item is (a) education. It was customary in the past to couple with educational expenditure (b) the charges connected with scientific departments, such as the department of surveys, archæology, &c. They are now shown separately in the accounts. In the same group may be included expenditure on (c) the medical establishment and (d) on sanitation. These items may at first sight seem to have a closer affinity with the subjects included in the group (B); but we prefer to bring them under (A), inasmuch as we include in the former group all expenditure for the benefit of the individual citizen, classing under the latter all expenditure for the development of the material resources of the country as such. (e) Ecclesiastical expenditure would, of course, fall within this group; but (g) the expenditure on printing and stationery may require some explanation for such a classification. The object of public printing and state publications is not really the convenience of the official world. It has the much higher object of educating the people, or supplying information which none but the powers and resources of government can collect and disseminate.*

The group (B) is more interesting, more extensive, more complex. Though most of the items enumerated under group (A) do bring in some

* It is for this reason that the Government of the United States issues its numerous publications free of cost, not only to its own officials and citizens, but to any one, native or foreign, requesting such books or publications.

revenue to the State, they are primarily and preponderantly items of expenditure. The majority of the items under group (B), however, are more truly sources of revenue than channels of expenditure, and this character they bear out as much from the direct intentions of the State as from their indirect results. Thus the charges under (a) **Railways** and (b) **Irrigation works** are, though very considerable, dwarfed by the income derived from those departments by the State. Whatever their history, it may safely be said that since the commencement of the century, these branches have brought more revenue to the State than occasioned expenditure, if we exclude capital expenditure in that connection incurred by the Government of India. A fuller treatment of these items, therefore, cannot be attempted until we have considered the priciples that should govern the State in reference to such sources of public revenues. This does not mean that we ignore or undervalue the importance of such expenditure. It only means that the double aspect of a great earning and spending department of the State, which, moreover, involves every year considerable outlay of a capital kind, cannot be attempted piecemeal. Any consideration of these items, if attempted in this chapter, is bound to be fragmentary and disjointed. Beyond, therefore, mentioning the broad principles which should govern the expenditure on these items, we shall in this chapter make no attempt to consider them. (c) Expenditure on Civil Buildings, including the charges for the building of the new Capital at Delhi, and that on (d) Posts and Telegraphs, though apparently similar to the two items mentioned above, according to official classification or English analogy, are in reality widely different in this country, and ought, therefore, to be separately considered in this section. The civil buildings do not, and the post office is not intended to, bring any considerable net revenue to the State, though the former diminish the charges under the heading rent, and the latter serves a very useful object to the Government as well as to the community. The receipts under these headings may be considered along with the expenditure in the same section. (e) Expenditure on famine relief and (f) agriculture are essentially similar and may be considered together; while (g) mint charges and those relating to (h) ports and pilotage, being impossible to class together with any other group, must be considered separately.*

As these departments have all been decentralised since the Reforms of 1920, and expenditure under the most important if not all of them is made over to the provincial governments, we can study them collectively only upto the end of 1920-21.

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* The above arrangement omits altogether one very important item of public expenditure: interest. As this is a very complex head, including interest on capital borrowed for productive as well as unproductive ends, each again being composed of a number of dissimilar objects, it would contribute to clearness of discussion, as well as to its comprehensiveness, if we postpone discussion to the chapter dealing with the Public Debt of India. We must, of course, remember to make due allowance for interest charges when dealing with such items as military expenditure, or expenditure on railways and irrigation works,

II.—Items and Details of Expenditure. Group A

(Figures in thousands of rupees)

Year.	Education.*	Science and other Departments.	Medical and Sanitation.	Ecclesiastical.	Printing.	Total.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1861–62	34,26	...	...	...	...	34,26
1870–71	62,47	...	52,35	15,36	20,09	1,50,26
1880–81	99,85	...	66,67	15,86	48,50	2,30,89
1890–91	1,42,48	58,74	88,85	16,16	60,28	3,66,13
1899–1900	1,62,92	47,15	1,49,10	17,11	76,88	4,55,66
1900–01	1,63,64	69,99	1,41,17	17,45	76,39	4,68,67
1901–02	1,69,85	75,47	1,29,61	16,92	81,61	4,73,46
1902–03	1,94,65	76,26	1,44,08	16,65	85,61	5,15,76
1903–04	2,05,13	82,49	1,42,24	17,06	82,45	5,29,38
1904–05	2,18,65	80,58	1,49,23	18,16	86,24	5,56,45
1905–06	2,45,72	98,80	1,58,48	18,21	83,63	4,54,83
1906–07	2,72,88	1,12,48	1,68,70	18,90	98,15	6,66,45
1907–08	2,23,36	70,49	1,28,49	18,53	1,10,34	5,51,20
1908–09	2,52,35	73,41	1,52,66	18,01	1,18,01	6,14,44
1909–10	2,55,73	68,68	1,45,17	18,61	1,08,71	5,96,90
1910–11	2,76,94	73,19	1,47,44	18,70	1,07,13	6,23,40
1911–12	3,03,18	76,24	1,75,41	18,67	1,00,45	6,73,95
1912–13	3,91,52	74,00	2,01,33	18,90	1,01,93	7,87,68
1913–14	4,76,52	69,05	2,03,14	19,16	1,08,46	8,76,33
1914–15	4,96,32	68,02	2,29,36	19,08	1,09,84	9,14,62
1915–16	4,66,67	64,78	2,25,35	19,66	1,11,16	8,87,62
1916–17	4,69,94	65,88	2,02,91	19,28	1,21,06	8,79,07
1917–18	5,09,20	76,91	2,35,79	19,90	1,42,83	9,84,63
1918–19	5,96,18	1,02,03	2,57,97	20,52	1,62,39	11,39,09
1919–20	6,86,62	1,27,94	3,21,97	20,17	1,47,74	13,04,44
1920–21	7,76,16	1,54,83	3,77,89	25,39		
1921–22	9,00,24	1,80,85	4,73,24	30,50		
1922–23	9,18,28	1,50,82	4,33,92	29,72		
1923–24	9,87,38	1,66,68	4,31,02	29,27		

III.—Stationery and Printing Expenditure

Taking the unimportant items in this group first; (a) **Printing and stationery** expenditure, as already remarked, is undertaken not so much for the covenience of the officers as for the instruction of the public in general. It is a great asset in favour of the present Indian Government, though the officers responsible for it do not appear always to understand or appreciate it, that all its acts and deliberations come, sooner or later, naked or dressed, before the public. We cannot conceive of a democracy without its first requisite

* The item of education was in the earlier years mixed up with the figures of the scientific departments, &c. No good comparison can, therefore, be instituted with the earlier years without considerable deductions. We have consequently given consecutive figures only for the years after 1899. The figures for the year 1890–91 are given without conversion in tens of rupees or *Rx.* as expressed in the statements of those years, and those for the years following 1899–1900 are converted into rupees at the fixed rate of £1= Rs. 15. The figures for post-war years are taken from tne decennial statistical abstracts and are in rupees.

of publicity in government. India is not a democracy. Its government does not welcome or desire a blaze of ceaseless publicity. There is a considerable amount of autocratic action, and secret planning, more than the outside critic gives credit for, in the councils of the Government of India. But still, compared to the governments that have gone before, we now enjoy a much greater publicity. It may spring from vanity. The various reports and documents may disclose a certain tone of superior aloofness, not consistent with the innate sympathy and clear understanding of the people's problems by an indigenous national government. Sometimes its resolutions and ordinances adopt a style of impatient advocacy, insistent repetition, ill-concealed aspersions, which may be undignified and unnecessary, making the reader recall the truth of the remark "*qui s'excuse s'accuse.*" But when all is said, this publicity, such as it is, is a great thing. It is an achievement for a government, wholly alien in personnel and often unsympathetic in character, boldly to disclose its doings, and frankly to invite criticism. It is an achievement when the entire information on questions of public interest in India is exclusively supplied by the Government, and yet not even their bitterest critics ever impeach the accuracy of the information. It is only to be wished that the present policy of charging a price would be dropped, or so modified as to make the public information more easily accessible.* The Government of India, poor as it is, may well sacrifice this little income without much inconvenience. The charges, however, it must be admitted, are not excessively high. Following the English practice they are fixed so as just to cover the cost of publication.†

IV.—Medical and Sanitation Charges

The Welby Commission on Indian expenditure disposed of this great head of public expenditure in a single short paragraph, suggesting thereby that the Government of India does not consider this head very important. The practice of the Government of India in the last twenty years but too amply and painfully confirms this view. The cost of the medical department,

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* The total amount realised from the sale of government publications by the Government of India amounted to Rs. 12 lakhs in 1924–25, Rs. 9·45 lakhs in the Revised Estimates of 1925-26 and Rs. 10·04 lakhs in the Budget Estimate of 1926–27.

The Stationery Receipts are derived from : sale of stationery, sale of gazette &c., and other receipts. The charges are in connection with office charges, purchase of stationery, government presses, and other charges.

† It must also be observed in passing, that the recent change in the size and get up of the most important Government publications, from the usual folio blue books to the new handy well bound books, is the latest indication of the true view of public printing. However, high Government officers incline to the view that in India the value of such information is not so well understood as to render the danger of such books, if given freely, being used as waste paper insignificant. The charge is a guarantee of use, though a hindrance to wide publicity. We would suggest that the charge be retained in so far as the information is demanded by foreigners, or even by those not primarily connected with the subject matter of the information required; but that it should be remitted in the case of all applicants able to show a genuine interest in the subject. Research students, public bodies, the periodical press, colleges, schools and libraries will thus afford a guarantee of use and surety of publicity, without possibility of misuse.

including sanitation, was estimated at £1,338,100 in the Budget of 1919-20, and 50 years before it totalled £523,486. The Indian Government maintains a large staff of medical officers only for the benefit of its servants. These are paid fairly high salaries; yet permission to continue private practice in important centres of population is too tempting not to be utilized even at the risk of great prejudice to their official duties. Many of the officers are employed in sanitary duties, and not a few of them are in charge of important prisons. Their sanitary duties include the control of large sanitary areas, dealing with the sanitation of large towns, the preservation of water supply, and the prevention of epidemic diseases. It is a strong instance of many anomalies in the organisation and working of the government machine in India that, until quite recently, the medical department also supplied officers for the mint. A very small proportion of the officers engaged in this branch of the public service is specially engaged in research, particularly on tropical diseases, in bacteriological laboratories, which have been established in India in the last fifteen years.

This service dates from the time of the East India Company. It was organised in 1764 even before the civil service, and was divided into the 3 Presidency establishments, in 1766. The division of the officers between military and civil branches, confirmed in 1788 and lasting ever since, is only for the purpose of convenience, the Indian medical officers in civil employ being considered as temporarily placed on civil duties. In 1898 all medical officers were given a military rank. Since 1906 the names of all officers are borne on a single list, though on his entry into the service each officer is given the option to elect the province in which he would serve. The entrance to the service is by a competitive examination to which Indians have been admitted since 1853. But in the course of 57 years that followed only 89 men of pure Indian extraction had entered the service before the end of 1910. Even to-day, according to the latest figures, not more than five per cent. are the natives of the country in spite of the heavy demands of the war.* The comparative weakness of the Indian element is due, not to the unpopularity of the medical service amongst the natives of India, but rather to the influences which have so far successfully maintained the practical monopoly of Englishmen in all the superior and most paying branches of public service. In 1914 a Parliamentary Paper was published containing the correspondence of the Government of India and the India Office regarding an independent medical profession in India, with a view, if possible, to reduce the strength of the service. The Government of India declared, and the Secretary of State agreed, that there was no room for the reduction in the strength of the existing service. But the latter suggested

* Out of 760 posts carrying Rs. 200 p. m. and over, Indians held 238 or 31 %. Out of 411 posts with Rs. 500 or more, Indians held 36 or 11 %. Out of 237 of Rs. 800 or more Indians held 9 or 4 % in 1913.

See Public Service Commission report (1916) pp. 24-25.

that the Indian Medical Service men should be restricted as far as possible to military duties, both with a view to economy, and in order to increase the number of appointments held by Indians who were at that time debarred from holding any commissions in the army. During the great war a small number of Indians were temporarily appointed commissioned medical officers in the army. The Secretary of State also pronounced against any increase in the civil posts. As regards an independent medical profession, Government were aware of the large and rapid growth in the number of Indian medical graduates. But they saw that these latter had much opposition to overcome from the practitioners of indigenous systems of medicine, who were of course more often quacks than qualified medical men even on their own lines. The subject, however, is still under consideration.*

The sanitary department, which has recently been proposed to be raised into a special department of public health, has a history not extending beyond 50 years. It was in the time of Sir J. Lawrence that the need of a wholesale system of sanitary reform first began to attract attention owing to the unhealthy conditions of life in the barracks for the British soldiers. The sanitation of the town has indeed materially developed during that period.† But the problem of rural sanitation remains practically where it was half a century ago. After the days of Sir J. Lawrence no definite steps were taken by the Government until 1898 when a policy was formulated in a comprehensive resolution. The outbreak of bubonic plague, which was just about that time raging all over India, must have contributed not a little to quickening the slow moving machine. The report of the Plague Commission compelled the Government of Lord Curzon to take up energetically this problem. They created a Sanitary Commissionership to advise

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* In regard to the Medical Services in India, the Lee Commission recommend :

"A new Civil Medical Service should be constituted in each Province and recruited by competitive examinations held both in England and in India, the medical needs of both the British and Indian Armies in India being met, in future by the "R.A.M.C. (India)." Every officer of the new Provincial Civil Medical Services should be liable for service with the R.A.M.C. (India) in the event of general mobilisation.

To meet the medical needs of British officers in the civil services and their families, a minimum number of British officers should be maintained in the Civil Medical Service herein proposed. These minima should be prescribed for each province by the Secretary of State, on whom, in the last resort, should rest the responsibility for their maintenance. Of this British element, one half or the number required for the military reserve whichever is the larger; should be reserved for British officers to be seconded from the R.A.M.C. (India). In default of the remainder being forthcoming by competitive examination for the Civil Medical Service, the deficiency should be made up by increased seconding from the R.A.M.C. (India) or, if necessary, by special additional recruitment for that purpose.

Subject to the existing rights of present members of the Indian Medical Service, all scientific chairs in Government Colleges and Hospitals, should in future, be thrown open to all candidates, the clinical chairs being reserved for members of the Civil Medical Services, however recruited, so long as fit candidates are available."

The total strength of Indian Medical Service (Civil) consists—according to the figures given by the Lee Report—of 420 men. The pay of those officers is regulated according to the following table given in the Lee Report :—

[Continued on page 153.

the Government of India on sanitary and bacteriological points, to suggest to Provincial Governments directions in which advance can be made, and to organise research throughout India. But this arrangement was based on a

Concluded from page 152]

Indian Medical Service (Civil)

(The pay is in rupees per mensem)

Year of Service.	Basic Pay.	Overseas Pay.		Total Pay.		Additional advantage resulting from remittance at 2*s.* when exhange is at 1*s.* 4*d.*
	Present and Pro-posed.	Present.	Pro-posed.	Present.	Pro-posed.	
1	2	3	4	5	6	7
As Lieutenant—						
1	500	150	150	650	650	—
2	500	150	150	650	650	—
3	500	150	150	650	650	—
As Captain—						
4	650	150	150	800	800	—
5	650	150	150	800	800	75
6	650	150	150	800	800	75
7	750	200	250	950	1,000	125
8	750	200	250	950	1,000	125
9	750	200	250	950	1,000	125
10	850	200	250	1,050	1,100	125
11	850	200	250	1,050	1,100	125
12	850	200	300	1,050	1,150	150
As Major—						
13	900	250	300	1,200	1,250	150
14	900	250	350	1,200	1,250	150
15	900	250	350	1,200	1,250	150
16	1,100	250	300	1,350	1,400	150
17	1,100	250	300	1,350	1,400	150
18	1,100	250	300	1,350	1,400	150
19	1,250	250	300	1,500	1,550	150
20	1,250	250	300	1,500	1,550	150
As Lieutenant-Colonel—						
21	1,500	250	300	1,750	1,800	150
22	1,500	250	300	1,750	1,800	150
23	1,500	250	300	1,750	1,800	150
24	1,600	250	300	1,850	1,900	150
25	1,600	250	300	1,850	1,900	150
26 & over ...	1,700	250	300	1,950	2,000	150
When selected for increased pay ...	1,850	250	300	2,100	2,150	150

Column 7 shows the advantage expressed in rupees resulting from the concession of remitting overseas pay at the privileged rate of 2*s.* the rupee. This advantage is not fixed, but varies with the course of exchange. The actual value of it expressed in rupees will be more when the exchange value of the rupee is lower and less when it is higher.

†See Strachey's India on the sanitary conditions prevailing in Calcutta in the fifties of the nineteenth century.

separation of research from clinical work which prevented men of talents from entering the new department; while the office work so completely absorbed the time of the Sanitary Commissioner that his salary was practically wasted as far as promotion of medical research was concerned. The position was therefore modified. The Sanitary Commissioner is now the technical adviser of the Government of India in all matters of sanitation; but questions of personnel and administration of bacteriological department and research institutes were placed under the Director General, Indian Medical Service. Expenditure on sanitation was also considerably increased. Since 1908 Government were making an annual grant of 30 lakhs a year for sanitary purposes, which was substantially increased in 1912 by the changes made in that year. Grants are also made annually to local bodies and provincial Governments to promote sanitation in their jurisdiction.

In spite of this improved organisation and increased expenditure the progress of sanitation is still in its infancy.

"The reason lies in the apathy of the people and the tenacity with which they cling to domestic customs injurious to health. Great improvements have been effected in many places, but the village house is still often ill-ventilated and overpopulated. The village site is dirty, crowded with cattle, choked with rank vegetation, and poisoned by stagnant pools; and the village tanks polluted and used indiscriminately for bathing, cooking and drinking."*

Much of this is no doubt due to the ignorance of the people; but by far the greatest portion is the result of their appalling poverty. The problem of village sanitation—it is hopeless to expect the village authorities to solve by themselves, in spite of all the resolutions and injunctions of the Government of India. For a generation to come, that is, until we have effected a veritable agrarian revolution, the State in India must bear the brunt of the burden in this department. And the burden will be heavy in proportion as our sanitary ideals advance, and to the extent that the people benefited are unable to contribute substantially. So far the Government of India have relied on private assistance to promote the cause of sanitation. But, though in the pandemic attack of influenza in 1918-19 this private non-official agency worked wonders in combating the disease in such centres as Bombay, we can hardly say that, considering India as a whole, private agency could be relied on to do this work satisfactorily. Just as the Government of India keeps under its own authority all questions of research, so too must they bear all burdens at least so far as rural sanitation is concerned. †

* Resolution, Government of India May 23rd 1914. (Gazette of India May 25th 1914).

† The following figures show India in a most unfavourable light in matters of sanitation.

	Birth rate per 1,000 (1902-11)	Death rate per 1,000 (1902-11)	Deaths of children under 1 year per 1,000.
Russia	48. 7	31.41	
India	38.58	34. 2	300 (average).
Germany	32.31	18.39	186.4
Japan	32.89	20.86	159.8
England and Wales.	26. 8	15.15	127.3
New Zeland ...	26.79	9.16	64.3
Australia	26.52	11.11	87.5
Scotland	27.99	16.33	116.1

When out of every three children born one is fated to die within a year, the situation can scarcely be called encouraging. We have the largest rate of infant mortality and of general mortality (See the *Population Problem in India*, P. K. Wattal) and the 1921 Census Report for the whole of India.

In the matter of financing sanitary expenditure we must mention the oft repeated proposals of the late Mr. Gokhale, which once he recommended to the Government in a formal resolution (1910). He was in favour of applying all surplus revenues to the development of sanitation. As there was no other way to induce the Government, committed to a disproportionately and rapidly increasing military and civil expenditure, and as there was no room for additional taxation, he thought it best to advocate the use of all windfalls in revenues towards this most laudable end. But apart from the special circumstances, which narrowly limited his proposal, we doubt if he would have supported a policy of financing sanitary expenditure from annual surpluses. The excess of revenue over expenditure, though it was fairly frequent between 1898 and 1914, could certainly not be depended upon for financing a heavy, regular, recurring, and indispensable expenditure. On his own authority it is an indication of defective finance when the estimates of revenue substantially fall below the actuals. It would be a point of honour with a good financier to make his estimates tally as closely as possible with his actuals. We should, therefore, have a very small, uncertain, varying sum if we depended only on the annual budget surplus for sanitary projects.*

The chief problems of sanitation in India centre round the supply of house room in large cities and recreation space, water, drainage, and the regulation of pilgrim traffic. Housing reform is only just beginning to attract attention, and sought to be remedied by such palliatives as the Bombay Rent Act. The Bombay Development scheme is more ambitious and consequently more liable to criticism. The water supply and drainage schemes are now carried on simultaneously and it has been estimated that in the last 20 years the total sums spent on these amount to 4½ crores, while the works under construction or sanctioned are estimated to cost another 3 crores. The question of the pilgrim traffic is the most difficult as the religious feelings of the people are involved; and yet it cannot be left alone as it is through the pilgrims that the infectious diseases spread in the country most rapidly. The subject was under inquiry at the time the war broke out and was kept into abeyance pending the great struggle. Since the war the financial stringency prevailing everywhere has made it impossible to take in hand such large questions of real social reform.

The Inchcape Committee recommended that the Medical and Public Health Services be amalgamated, and that the grant to the Indian Research Fund be discontinued.

V.—Ecclesiastical

India spends every year nearly £125,000 on ecclesiastical affairs, though in the ordinary acceptance of the term, she has no Established Church. The following table gives an analysis of the expenditure on this head.

* Sanitation or Public Health, made over to the Local Government, will not improve materially in the present state of local finance. The development scheme for the city of Bombay (1920) clearly indicated the necessity of special taxation. The problem of financing rural as well as urban sanitation will be the greatest test of Indian statesmanship.

Ecclesiastical Expenditure.

Year.	Total Rs.	Year.	Total Rs.
1911-12	11,67,322	1919-20	19,16,703
1912-13	11,90,047	1920-21	25,39,448
1913-14	19,15,677	1921-22	30,50,467
1914-15	19,08,283	1922-23	29,72,275
1915-16	19,65,686	1923-24	29,27,343
1916-17	19,28,059	1924-25	31,29,530
1917-18	19,90,043	1925-26 R.E.	32,30,000
1918-19	20,51,878	1926-27 B.E.	36,43,000

This ecclesiastical department is maintained by the Government of India to secure religious ministrations, primarily for the European troops in India, incidentally also for the European public servants and their families. Out of the eleven Bishoprics of the Anglican Church three are fully recognised and paid by the Government of India, four more are recognised but paid only as senior chaplains, and the remaining four are recognised and paid out of the funds of the ecclesiastical department. The total Christian population of British India, according to the last census was 2,492,284 souls. It is one of the ironies of public administration that while the Government adopts an attitude of the most stringent neutrality with regard to the religions of the people of India, it spends almost 1*s.* per head of Christian population for religious service. The only criticism one need pass on this item is that the tendency of the modern state is justly towards a complete secularisation; that in countries like India, an official religion is impossible to establish without the gravest injustice to the rest of the population; that the Christian religion can by no standard of fairness be made the established religion of India; that the Government is prudent enough in keeping these estimates outside the scope of budget discussion allowed to the Legislative Assembly; and that it is high time the State in India severed all official connection with the Church, and discontinued its present religious expenditure. The sum is small, but not too small to be useful in other more urgent and fruitful directions. *

VI.—Expenditure on Education, Scientific and Minor Departments

"Education in India," says Howell, "under the British Government was first ignored, then violently and successfully opposed, then conducted on a system now universally admitted to be erroneous, and finally placed on its present footing."

In this attempt at a critical historical study of Indian finances we are not at liberty to trace, however briefly, the educational organisation of India in the pre-British era. For obvious reasons, the East India Company ignored altogether the ruler's primary duty to educate the subject races. In 1814 for the first time, the Court of Directors announced the grant of Rs. 1,00,000 for purposes which we should now characterise as educational; and on this meagre provision the education of over one hundred million souls was to be attempted in the next forty years. A definite policy was formulated in 1854 by Sir Charles Wood. Education of the people of India

*Cp. the note of Sir Purushottamdas on this heading of the Inchcape Report,

was, if not a primary duty of an enlightened State, at least to be extended and systematised through the agency of the State. A Department of Public Instruction was to be instituted in all the important provinces, universities founded in the presidency towns, training schools established, Government colleges and schools maintained, and their number increased whenever necessary. Extension of education in all its forms was to be encouraged by a well-defined system of grant-in-aid. Pursuant to the dispatch, universities were established in the three presidency towns in 1857, in the Punjab in 1882, and at Allahabad in 1887. It was hoped that by taking care of the higher education, the lower classes would automatically receive attention, by means of the "filtering through" of the education imparted in the superior classes. Efforts were consequently concentrated on the development of university and secondary education leaving the primary education relatively neglected.

The system of education, as established by the dispatch of 1854, remained in operation for nearly a generation. In 1882, Lord Ripon's Government appointed a commission to enquire into the state of education throughout the country, practically in reference to the policy laid down in 1854. They found that in 1882, there were roughly speaking 85,000 primary schools giving instructions to about 2,150,000 pupils, while unrecognised schools provided instruction for another 350,000. Compared to the population of India at the time, this figure works out at 1·2 per cent. of the total population. The Commission recognised this defect in the system of India's education, and recommended the extension and improvement of the primary education. From this time onward, we may mark a change of opinion and policy in regard to public instruction. Primary education begins to receive greater attention, than hitherto. As regards secondary education, the result of the Commission's report was a withdrawal of Government control on private instruction and a permission to the latter to lower their fees. These recommendations have been characterised as "a charter of inefficiency" by the critics of the Commission. From 1882 to 1902, the period is described as an indiscriminate stampede for education regardless of the results. In 1901, Lord Curzon called a conference to consider the constitutional changes in the Indian Universities. The Indian Universities Commission was appointed in the following year, and its report was made the basis of the new act of 1904, which now governs the Indian universities. It was violently opposed by the Indian public opinion, alarmed at the excessive centralisation, officialisation of the senates, and costliness of higher educational machinery.† Another result of Lord Curzon's educational activity was the appointment of an expert travelling committee to advise on technical education. At the same time renewed and increased attention was paid to the question of mass education. Finally, when a separate department of Government of India

* See the speech of Mr. Gokhale on the Elementary Education Bill, Imperial Legislative Council, 18th March 1910. The speech is a mine of facts regarding education in India.

† For Anglo-Indian opinion cp. Fraser: "*India under Curzon and after*,"

was established to look after education and sanitation in 1910, education came to receive its due recognition in the Government of India.

Confining ourselves for the moment to the finance of education in India, we must notice first, that the despatch of 1854 did not prescribe any definite financial policy. It was left as a general charge on the aggregate finances of the country. But a definite policy, making education charges a special burden to be specially provided for, was first formulated in 1859. It imposed local cesses, being a fixed percentage of land revenue for purposes of primary education. Local Cess Acts were passed in Madras (1866), Bombay (1859), United Provinces and the Punjab (1871), Bombay making the cess compulsory, Madras and Bengal allowing it to remain semi-voluntary. The total expenditure of 76 lacs of rupees in 1866-67 (11 months) was met as follows : Imperial Funds 48 lacs; Education Cess Committee receipts, cess proceeds, fees &c. 23 lacs; and the rest from private contributions. In 1871-72 under the new system of financial decentralisation, educational expenditure was placed under the Local Governments, who were to meet the charges under all the heads surrendered to them from a lump sum allotted to them. Following the report of the educational committee in 1882, and in accordance with Lord Ripon's general scheme of developing Local Self-Government, primary schools were made over to local boards, with power to levy local cesses to support the schools. Though the local revenues have never been very elastic, they have been contributing a steadily increasing proportion of the total expenditure. The policy then inaugurated continues in all essential particulars still; so that at the present time the cost of education in India is shared almost equally between the public and private funds. The former includes provincial revenues, consisting of special Imperial grants earmarked to special purposes and the proceeds of the provincial sources of revenues, together with municipal and district boards revenues consisting chiefly of the cess proceeds. As this last item is usually insufficient, provincial governments make "equilibrium grants" for the general purposes of equallising income and expenditure, and special grants to promote specific objects like education and sanitation. Thanks to these arrangements, the progress of education in India has been found to be, though slow, reasonably steady. The following tables shew that progress at different dates.

Growth of Expenditure

Year.	Rs. Govt.	Rs. Total.
1886-87	1,34,81,812	2,52,42,414
1891-92	1,55,18,184	3,05,79,632
1896-97	1,57,65,650	3,52,44,900
1901-02	1,77,03,968	4,01,21,462
1905-06	2,96,34,574	5,59,03,673
1911-12	4,05,23,072	7,25,92,605
1915-16	6,21,68,904	11,06,29,249
1916-17	6,14,80,471	11,28,83,068
1917-18	6,48,01,690	11,82,09,137
1918-19	7,19,26,292	12,98,63,072

These figures show that in 1923-24 of the total male population 6·15%, and of the total female population 1¼% and of the total general population 3·77% were at school. Taking Mr. Gokhale's basis

Growth of Pupils (Public Institutions)

Years.	Males.	Females.	Total.
1886-87	3,115,808	277,736	3,393,544
1891-92	3,517,778	339,043	3,856,821
1896-97	3,954,712	402,156	4,356,870
1901-02	4,077,430	444,470	4,521,900
1906-07	4,743,604	645,028	5,388,632
1911-12	5,828,182	952,539	6,780,721
1915-16	6,431,216	1,186,261	7,617,496
1920-21	6,427,966	1,347,027	7,774,993
1923-24	7,206,706	1,424,747	8,674,003

The total number of scholars in all institutions numbered 9,797,344 in 1924-25.

of 15% as the proportion that ought to be at School, only two out of every five boys, one out of every twelve girls, and one out of every four of the general population, which ought to have been at school, were at school, at the latest date under review.

The subjoined table gives an idea of the total expenditure from all sources on each class of educational institutions in British India :—

Year.	University Education.	School Education General.	Primary Schools.	School Education Special.	Total Indirect Expenditure.	Total Expenditure on Public Instruction.
1911-12...	70,74,301	2,08,84,033	2,07,47,315	53,77,594	2,46,80,589	7,87,63,832
1912-13...	78,96,581	2,26,63,866	2,30,64,479	56,55,489	3,15,42,005	9,08,22,420
1913-14...	8,506,560	2,58,20,961	2,56,33,537	64,71,052	3,40,16,689	10,04,48,799
1914-15...	91,45,278	2,79,09,463	2,66,96,061	66,31,478	3,90,61,898	10,94,44,358
1915-16...	98,80,309	2,97,61,102	2,81,70,507	71,54,917	3,61,52,679	11,11,19,514
1916-17...	1,07,03,166	3,19,29,182	2,93,13,545	73,40,926	3,35,96,249	11,28,83,068
1917-18...	1,10,21,031	3,38,68,078	3,10,42,514	77,36,928	3,45,40,586	11,82,09,137
1918-19...	1,14,72,432	3,66,71,903	3,53,27,294	83,77,501	3,80,13,943	12,98,63,073
1919-20...	1,27,70,771	4,00,37,714	4,06,26,985	99,94,298	4,54,67,192	14,88,96,960
1920-21...	1,50,95,236	4,49,46,871	4,53,53,627	1,15,19,946	5,08,17,433	16,77,33,113
1921-22...	1,70,19,852	4,87,26,905	5,09,08,107	1,37,01,594	5,33,96,511	18,37,52,969
1922-23...	1,68,59,993	4,97,79,820	5,36,92,725	1,46,44,229	5,35,00,414	18,84,77,181
1923-24...	1,73,25,364	5,39,14,784	5,65,44,830	1,43,43,293	5,69,82,920	19,91,11,191
1924-25...	1,99,44,476	5,72,33,823	5,96,65,211	1,44,28,713	5,74,76,096	20,87,48,319

Expenditure on Education in each Province

Year.		From Provincial Revenues.	From Local Funds.	From Municipal Funds.	From Fees.	From other Sources.	Total.
1911-12	...	2,70,13,288	1,05,89,358	29,99,675	2,19,43,450	1,62,18,061	7,87,63,832
1912-13	...	3,41,87,186	1,23,24,839	33,56,599	2,41,86,519	1,67,67,277	9,08,22,420
1913-14	...	3,65,53,496	1,47,96,608	37,83,709	2,67,07,253	1,86,07,733	10,04,48,799
1914-15	...	4,24,19,119	1,66,84,988	43,87,126	2,86,12,197	1,73,40,928	10,94,44,358
1915-16	...	3,96,03,046	1,80,44,045	46,65,110	3,04,05,277	1,84,02,036	11,11,19,514
1916-17	...	3,91,62,853	1,73,78,535	49,39,083	3,18,71,138	1,95,31,459	11,28,83,068
1917-18	...	4,90,92,368	1,16,48,745	40,60,577	3,33,50,250	2,00,57,197	11,82,09,137
1918-19	...	5,43,25,829	1,27,22,655	46,77,808	3,54,65,704	2,26,71,077	12,98,63,073
1919-20	...	6,31,62,233	1,53,95,816	59,05,423	3,68,80,459	2,75,53,029	14,88,96,960
1920-21	...	7,72,86,445	1,66,12,405	67,78,021	3,78,42,513	2,92,13,729	16,77,33,113
1921-22	...	9,02,30,028	1,68,26,087	79,05,063	3,80,08,648	3,07,83,143	18,37,52,969
1922-23	...	9,36,67,116	1,69,92,394	81,62,348	3,93,50,490	3,03,04,833	18,84,77,181
1923-24	...	9,74,76,422	1,70,28,934	86,54,197	4,33,54,300	3,25,97,338	19,91,11,191
1924-25	...	9,98,01,594	2,73,26,096		4,68,63,182	3,47,57,447	20,87,48,319

The expenditure from public funds is not all the expenditure on education in India. The above tables show the growth of that expenditure from the public funds as well as from all sources put together. The

expenditure in 1923-24 was distributed as follows:—university education cost 8·50% of the total; secondary schools 28·25%, special schools 7% and buildings, furniture and other indirect expenditure made up the balance of 30% of which buildings and equipment cost about 10% and direction and inspection about 5%.

This table shews a more rapid growth on educational expenditure during the last ten years, before which it was more or less stationary. Healthy as this indication of a more vigorous policy in education matters seems to be, it must yet be noted that the distribution of educational expenditure leaves in the back ground the question of the primary education, the question of educating the masses of the people. No doubt, since 1910, considerable activity is shewn by Government in developing primary education; and the statistics given above prove that the subject is receiving more and more attention. But much remains still to be done in this direction. The history of efforts for popular education is relatively speaking very recent. Government did, indeed, pay some attention, ever since the definite formulation of an educational policy from 1859, which was again modified for the better in 1882 and 1902. But the changes made at these three dates referred principally to higher or university education, rather than the education of the masses. It was not till after the Constitutional Reforms of 1909 that the late Mr. Gokhale first tried to draw public attention as well as that of the Government to the most important question of primary education. In March 1910 he moved the following resolution in the Imperial Council:

> "That this Council recommends that a beginning should be made in the direction of making elementary education free and compulsory throughout the country, and that a mixed commission of officials and non-officials be appointed at an early date to frame definite proposals."

That resolution served to arouse public discussion both in the Council and outside; and, though that year it had to be withdrawn, the very next year, in March 1911, he introduced the celebrated Elementary Educational Bill. He shewed by comparative statistics that at least 15 % of the total population in any country would be of school-going age, *i.e.* between the years of seven and twelve. This was a very moderate estimate. But the proportion at school in India was, at the time of the Bill, only 1.9%.* As regards expenditure, he also shewed that while the United States spent 16*s.* per head of population on primary education, Australia 11*s.* 3*d.*, England and Wales 10*s.*, Scotland 9*s.*, Germany 6*s.* 10*d.*, Belgium 6*s.* 4*d.*, France 4*s.* 10*d.*

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* According to the figures given in the last quinquennial report on education in India the percentage of population enrolled in elementary shools was 2·83 as against

19·87	in	the U. S. A.	13·90	in	France.
16·52	in	England.	13·07	in	Japan.
16·30	in	Germany.	3·77	in	Russia.

The Indian figure would be slightly higher *i.e.*, 2·63 per cent. if we include pupils in the primary stages of instruction in the secondary schools. If we consider the male population alone the figure would rise to 3·83 per cent.

India spent barely *1d*.* To remedy these glaring defects in the educational policy of India, the Bill "to make better provision for the extension of elementary education" was introduced. It was a cautious measure, and made compulsion only a permissive principle. (1). Before the provisions of the Act could be applied in any local or municipal area, a certain proportion of boys or girls was to be already at school, the percentage was to be fixed by the rules made by the Governor-General in Council. (2) The municipality or local board might, when this condition was fulfilled, apply the Act to the whole or any specified part of the area within the local limits of its authority, but it was not incumbent on the authority to apply it. (3) Even when the condition of school attendance was fulfilled and the local authority was desirous of applying the Act, the consent of the local government was necessary before this could be done. (4) Wherever the provisions of the Act were in force, it should be incumbent on the parent of every boy, not under six and not over ten years of age, residing within that area, to cause him to attend a recognised school for elementary education on a number of days and for periods to be prescribed by the Department of Public Instruction. (5) Ample provisions were made for exemption in individual cases, and the local government might further exempt particular classes or communities from the operation of the Act. (6) No boy required to attend school should be charged any fee if his parents' income did not exceed Rs. 10 a month, and other remissions of fees were allowed. (7) Wherever the Act had been made applicable to boys, it might also be made applicable to girls. (8) School attendance committees were to be appointed whose duty it should be to complain, after warning, against parents of defaulting boys before a magistrate. The magistrate was to enquire into the case and direct the parent to make the boy attend. If his directions were disobeyed, the parent was liable to a fine not exceeding Rs. 2 for the first offence, and Rs. 10 for repeated non-compliance. (9) The municipality or district board having jurisdiction over an area where the Act applied, was to provide such school accommodation as the department considered necessary, and to this end it might, with the sanction of the local government, levy a special educational cess. (10) But the local government was also to share in the cost, the proportion to be met by local and provincial funds being prescribed by rules made by the Governor-General in Council.

This cautious measure, hedged round with all sorts of safeguards against too rapid an extension of the mass education under the principle of gratuitous and compulsory instruction, and purely permissive in its general conception, was nevertheless stoutly resisted. To the upholders of the

* The average expenditure in India has since Gokhale's time increased and is now nearly *6d*. per head. But consider the following comparisons:—

Country	Population	Educational Expenditure £	Cost per head
U. K.	... 45,316,000	34,663,000	15/—
U. S. A.	... 105,710,760	450,000,000	84/—
France	... 39,602,000	23,000,000	11·6/—

British rule in India it seemed a perilous experiment which would shake the foundation of British Government in India, if once the masses of India should become literate, and should fall under the malevolent influence of the "agitators." Mr. Gokhale might well reply to such critics that the stability of British rule in India rested more on the appreciation of its advantages than on the ignorant apprehensions of the illiterate masses. It is a curious irony of fate which has in the past exposed the Indian publicist to the charge of not being anxious to secure, by his agitation, any but the interests of his class; and yet when the same publicist brings forth such measures as these, he is accused of trying to undermine the foundations of British rule in India. Great as the advantages of the British Government to India may have been, it would be asking too great a price for its maintenance if 99% of our population is to remain for ever illiterate. As regards the objection to the principle of compulsion, such as it was, on the ground that the field for voluntary effort was not exhausted, and that India was not yet a fit country for such experiments, one need only say that without its aid the solution of the educational problem should be out of the question. The social customs of the people, particularly those concerning the depressed classes and the women in general, make it inevitable to resort to compulsion in any scheme of universal education. Mr. Gokhale, whose moderation was indisputable, suggested that the principle of compulsion should not be adopted all at once, but only when and where a certain proportion of school-going population was already at school, and where, therefore, it may reasonably be expected that further progress of education would be very much hastened by the adoption of compulsion. Besides, the poor Indian parents would have more than one temptation to keep their children from school as soon as there would be the slightest chance of the children adding to the slender family budget by their earnings. If this natural but at the same time injurious parental cupidity was to be prevented from defeating the fundamental aims of national development, it would be essential to insist on compulsion.

Objections of detail were urged against the Bill by the authorities who seem to specialise in the tactics of obstruction. The scarcity of efficient teachers as well as of good school buildings was considered to make it undesirable to extend the then prevailing system of primary education. Even granting the objection, the remedy is not to veto proposals for primary education, but to improve the quality of teachers, the character of buildings and apparatus. Besides, they misunderstood the object of the proposal, who urged such objections. Primary education must be extended to banish illiteracy from the land. The quality of instruction, always important, begins to attract attention only when the country has obtained the necessary minimum of literacy. So, too, the objection on the score of finance. The Government of India was committed to a heavy and steadily growing expenditure on such a department as the Army, running even then into 30 crores a year or more. Mr. Gokhale's Bill, if it had become law, would have involved an additional cost per annum at the rate of Rs. 5 per each pupil, *i.e.*, for 85 lacs pupils as

estimated by the official Educational Commissioner of the Government of India, of a little over 4 crores of Rupees. This additional cost was, according to the suggestion of the Bill, to be shared between the Government of India and the local bodies in the proportion of 2 : 1, so that the net addition to the Government of India's budget would be only Rs. 3 crores. Besides the Bill also provided that the whole of the cost was not to be met all at once, but progressively in ten years, so that the progressive addition to the expenditure would be only 30 lacs, an amount easy to be covered by the normal increase of revenue, which was calculated to be a little over a crore a year. None of the arguments advanced against this Bill by the obstructionist was so weak as this plea of increased expenditure. Mr. Gokhale, aware of the official opposition, had from the beginning left no grounds for attack from this quarter. No additional burdens were contemplated; but if any had been, it is now easy to prove, with the experience of the war finance before us, that the whole of the 4 crores could have been met easily in a single year by a simple addition of 2% to the Customs tariff, or an addition of 10% to the Income Tax. There was no question, if it had been so decided, of the willingness of the community to bear additional taxation if it had been imposed for such an end.

In justice to the Government, it must be admitted that not all the objections to the Bill were of official origin. The Mohammedans were afraid that the provisions of such a Bill might work against the interests of their community, inasmuch as Mussalman boys under state schools might be obliged to learn non-Mussalman languages. Mr. Gokhale was aware of the sensitiveness of the Mohammedans in such matters, and he therefore offered concessions which would have satisfied every reasonable Mohammedan. We need hardly mention the other puerile objections against the Bill on the ground of insisting upon fees, the last from people whose income exceeded Rs. 10 a month, or on the ground that in an extremity the author of the Bill, rather than sacrifice the Bill on financial grounds, suggested the imposition of an education cess. It was an experiment, and could not, therefore, be expected to offer a complete and perfect system of national education.

In spite of an unanswerable case, in spite of the moderation which characterised it in every clause, the Bill was lost in the Council chiefly on account of the opposition of the official majority. The only consolation that the Indian public had was the practical acceptance of Mr. Gokhale's principle by the Government in their resolution of 1913 :

> "The proposition that illiteracy must be broken down, and that primary education has, in the present circumstances of India, a predominant claim upon public funds, represents an accepted policy, no longer open to discussion. For financial and administrative reasons of decisive weight the Government of India has refused to accept the principle of compulsory education; but they desire the widest possible extension of primary education on a voluntary basis. As regards free elementary education, the time has not yet arrived when it is practical to dispense wholly with fees without injustice to the many villages which are waiting for the provision of schools. The fees derived from those

pupils who can pay them are now devoted to the maintenance and expansion of primary education, and a total remission of fees would involve to a certain extent the more prolonged postponement of the provision of the schools in villages without them."

After thus recognising the principle that Indian opinion had accepted long ago, Government have now surrendered their untenable position by permitting the Local Governments,—Bombay taking the lead in 1918—to pass Bills making primary education compulsory under certain conditions in municipalities and district boards. Seven Provincial Governments have so far legislated on these lines.*

Being concerned in this work only with the financial aspect, we have not considered any of the other numerous problems of education in India. But as none of these problems is without the financial side, we may here append a very brief review of some of the most urgent questions affecting the general policy. It has been frequently urged, by Anglo-Indian public opinion more prominently, that education in India is top-heavy; that a disproportionate attention is paid to the secondary and university education, and that consequently an artificial abundance is created in the labour market in one particular kind of labour, which, disappointed in its search for employment, joins the ranks of agitators. Agitators, as such, cannot be condemned *ad hoc genus omne,* since agitation is an indispensable requisite of social progress. But apart from this contention of Anglo-Indian critics of the educational organisation in India, there is some truth in these allegations. According to the last Quinquennial Review of the progress of education in India, as against the ·024% of the total population undergoing univesity education in India, there was ·054% in England, and ·014% in Japan. If we leave out of consideration the female population, this is indeed a high proportion for such a country as India. Besides, if we compare the proportion of those receiving elementary education, this percentage of higher education seems still higher. Whereas in the U. S. A. 19·87% of the total population was enrolled in the elementary schools, as compared with the 16·52 in England and Wales, and 13·07% in Japan, in British India only 3·7% was in the primary schools. This is by itself a sufficiently serious state of things. But we must observe that, admitting these statistics, the explanation is to be found in the absence of a good system of universal primary education. The class which now receives any education at all in India is a class which will continue to demand the highest education, speaking in general terms. To reduce the proportion, if it is considered advisable to do so, the best remedy would be an extension of the primary education.

* Under the latest acts, which are all drafted on similar lines, if a local body resolves, by a 2/3 majority at a special meeting convened for the purpose, to introduce compulsory education in any part of the area under its control, it may apply to Government with a definite scheme for the purpose. That scheme must be within the means of the local body concerned, of course with some assistance from Government. As a rule the age limit for compulsion varies from 6 to 10 years, though the period may be prolonged. Particular classes and communities may be exempted from attendance; and special indulgence may be shown to cases of bodily infirmity. The school must be within walking distance, *i.e.*, a mile from the home. Subject to the sanction of the Local Government, education where made compulsory is permitted to be free.

Besides a proper organisation of primary education, the only other remedy of this congestion of higher education is to devise systems of mechanical, or technical education of a superior type. The opportunities for any highly specialised education in India are notoriously inadequate. The Government has to recruit its special officers from abroad, apparently on the excuse that men of the requisite training are not to be had in India. The only way to reduce the pressure on Government departments, or a few select professions, for employment is to diversify the educational organisation by offering a rich choice of alternatives. The provision of higher scientific and mechanical education is not demanded merely in the interests of the labour market of India. The Indian industries, as was found by the Industrial Commission which reported in 1918, suffer a serious handicap owing to the absence of expert guidance of a scientific or mechanical kind. In the general interests of the country at large, therefore, it becomes imperative to ask for a much wider extension of scientific and technical education.

In this work, we are not called upon to discuss the more academical questions such as those relating to the medium of instruction; English versus Vernaculars, or those relating to the introduction of religious and moral instruction. But we must say more than a word in passing for the education of women and for the instruction of the depressed classes. Given Indian social conditions, these two classes will continue to need, for some time to come, special treatment. Government would have to abandon its traditional policy of non-interference if the interests of the country are not for ever to be damaged. And any special treatment of these classes will involve unavoidably considerable strain on the public purse. To meet this expenditure special taxation may have to be resorted to, but we think, if the revenue changes suggested by us in the section dealing with the revenues of India are adopted, no difficulties of a financial kind would be experienced. The present proportion of women is as follows:—

Table showing proportion of women to men in education.

Institutions.	Women.	Men.	Cost of 2. Rs.	Cost of 3. Rs.
Arts Colleges ...	1,622	58,814	1,11,17,222	8,07,31,908
Secondary Schools	44,170	631,977		
Primary Schools ...	1,264,814	5,690,820		
Total in public institutions ...	1,424,747	7,206,706		

Only 3·77% of the total population and 1·25% of the female population finds instruction in India. Assuming Mr. Gokhale's proportion of 15% as representing the population of a school-going age in a country, the number of female pupils will have to be increased to seven times[1] its present proportion, and that of male pupils to three times before India can be said to have obtained a necessary minimum of education. Assuming further that the

whole of this increase showed itself financially in the stage of primary instruction only, the addition to the total education budget will be 7 crores in the case of institutions for girls only, and 9 crores for those for boys, or a minimum increase of 16 crores over the present budget figures. Allowing for the fact that education of women is complicated in many provinces by the existence of the purdah, and that consequently female teachers at relatively much higher pay must be employed, the increase may even run to Rs. 20 crores before a decent system of universal instruction is established in India.

We have no desire to stress, what the official figures make only too painfully prominent, the disproportionately large sums spent by the Government of this country on the instruction of the European and Anglo-Indian communities in India. For about 50,000 European pupils in all stages of instruction, the total outlay, direct and indirect, amounted to Rs. 110'49 lakhs, or about Rs. 221 a head of which Rs. 39'40 lakhs came from fees and 4'75 lakhs from endowments, leaving a net charge on public funds of Rs. 66'35 lakhs. If it does not seem advisable to reduce this expenditure, we would yet suggest that the sense of unequal treatment will not disappear unless the authorities add proportionately to the outlay on the instruction of the Indian public at large.

As calculated below our minimum educational requirements, giving effect to the most urgent of these suggestions, will be Rs. 40 crores a year, including the interest charges on an educational loan that will have to be raised to meet the initial cost of new buildings, apparatus and equipment for schools, colleges and laboratories, of something like 50 crores.

The total educational expenditure would amount to Rs. 40 crores distributed as follows :—

	Rs. (Lakhs.)	Against the present.
Primary Education	2,000'00	575
Secondary Education	800'00	540
University Education	200'00	175
Superior Technical Education ...	150'00	150
Special Schools	150'00	
Training Schools	75'00	
Inspection and Direction ...	75'00	95
Scholarships	100'00	25
Buildings	250'00	440
Miscellaneous	200'00	
Total ...	4,000'00	2,000

CHAPTER V

B. Expenditure on Material Development

As already noticed the items included under this group are 8. Of these the first two are now more important as sources of public revenue than as those of expenditure, and so it would be better to discuss them under the chapters dealing with the revenues of the Government of India. The posts and telegraphs, though a source of considerable revenue, are nevertheless not intended in India primarily as revenue yielding departments. It would consequently be more fitting to discuss them as a charge rather than as an income. Similarly, also, civil buildings, including the charges for the construction of the new capital, the mint charges proper, and the charges in connection with ports and pilotage, are relatively of second rate importance.

*1. Railways.
2. Irrigation Works.
3. Civil Buildings.
4. Post and Telegraphs.
5. Famine relief.
6. Agriculture.
7. Mint Charges.
8. Ports and Pilotage.

The most important item of expenditure under this group, then, is that connected with **famine relief and agriculture.** The actual expenditure incurred for the relief of famine is luckily not a recurring charge. Nor can we quite describe it as a charge for the material development of India taking that expression in its narrow sense. It is more protective than developmental; preventive than constructive. But owing to the standardisation of the charge, and considering its importance in the Indian financial system, it would not be inappropriate to consider it under this group, even if we make no allowance for the help the Famine Relief Fund has rendered to such unquestionably developmental items of expenditure as railways and irrigation works.

I.—Famine Relief

Though provision by way of insurance against or relief in time of actual famine is, since 1920, a wholly provincial concern, the national importance of this question compels us to give a more comprehensive discussion. The general principles governing famine relief will be best evidenced by a brief historical account of the evolution of the present policy in that respect. Without going too much into the details of history, we may show the frequency and intensity of the famines in the last two generations by the subjoined table :—

* Of these, only Railways, Posts and Telegraphs, Mint and Ports & Pilotage, remain, since 1920, wholly Imperial items, the rest being provincialised.

Table showing the intensity and frequency of famines in India.

Date.	Locality.	Area in sq. miles.	Population. affected	Expenditure (direct) Rs.
1860-61	Punjab, Rajputana, U. P.			
1862	Deccan.			
1866-67	Orissa, Bihar, Ganjam, Hyderabad, Mysore ...	180,000	47,500,000	1,45,00,000
1868-70	Punjab, Gujrat, Central Provinces, Deccan, Rajputana			
1873-74	Bengal, Bihar, Bundelkhand ...		17,000,000	6,75,85,330
1876-78	Madras, Bombay, Mysore, Kashmir, U. P., Hyderabad	250,000	58,500,000	8,00,00,000
1888-89	Gujarat, Orissa (Native States)			
1896-97	U. P., Bengal, Bombay, Berar, Hyderabad, C. P., Madras, Delhi, Rajputana	307,000	69,500,000	10,25,00,000
1899-1900	C.P., Bombay, Berar, Hyderabad, Baroda, Rajputana, Gujarat, Kathiawar	475,000	60,000,000	£6,670,000 Relief. £1,585,000 Loans. £1,333,000 Remissions. £1,800,000 Loans to Native States. £11,388,000 *
1906-07	Durbhanga,			
1913-14	United Provinces,			
1918-19	Indian Empire			Rs. 3,16,00,000 (?)

It would add unnecessarily to the bulk of this work, were we to go into the details of the famines in each of the above instances, or even to attempt an analysis of the public policy in each instance.* We shall discuss the history and expenditure under two main divisions: The period before the great famine of 1873-74, and the period thereafter. The reason for the division is that at the date selected for division emerges the first glimpse of the principles now accepted to be the most salutary in famine relief, and thereupon is built up the modern system of relief.

Taking these two periods in their chronological order, we find that in the years before 1877 the relief of famine was not governed by any settled predetermined principles. Each famine was fought when it occurred on independent lines. It is true that the report of Colonel Baird Smith who investigated into the causes of the famine in 1862 did make some suggestions

* The true idea of the cost of famines is not to be gained merely by giving the figures of direct expenditure on relief in a famine year. So far as the Government are concerned they lose a considerable portion of their land revenue owing to failure of crops. There is besides expenditure from charitable funds and loans and the expenditure in the Native States. The total expenditure of such a famine as that of 1899-1900 we estimate at Rs. 20 crores in round figure.

for a regular famine relief policy, which with very little variations could be applied in any emergency. But the absence of proper adequate means of communication, combined with the ignorance and sometimes indifference of Government officers, led to heavy mortality and suffering as the result of the earlier famines. And when the toll of the dead attracted the attention of the Government, they quite naturally ran to the other extreme of saving human life irrespective of the cost. The famine of 1873-74 for example was distinguished by the lavish scale on which relief operations were organised by Sir R. Temple who considered no cost too heavy if human life was to be saved. The Government of India could not for ever be regardless of their exchequer, and in the very next famine they suggested that the task of saving life irrespective of expenditure was beyond their ability. But the task which the Government of India seem to have set themselves in combating famine was still the same—saving life, not, indeed, irrespective of cost, but so far as lay within their power. They continued to import food in the famine-stricken districts, to dole out rations, either freely as in the case of purdah women, or in exchange for relatively inefficient labour or unproductive relief works. In the next great famine—the last in the period before the evolution of a definite policy—Sir R. Temple continued in the South his old campaign of life-saving regardless of cost in spite of the explicit instructions of the Government of India to the contrary. 700 million units were relieved at a total cost of Rs. 8 crores to the Government on the rather liberal allowance of 1 ℔ of food per day to each individual seeking relief. But in spite of this, the mortality directly traceable to famine amounted to 5,250,000 souls.

Finding the task of saving life independent of the considerations of cost absolutely beyond their powers, the Government of India began to consider more definite steps for a permanent policy of famine relief. Calculating that the total cost of famine relief to the Government during the period of ten years preceding 1877-78 had amounted to Rs. 15 crores, Sir J. Strachey, the then Finance Minister, proposed that an annual excess of Rs. 1·5 crores must be secured in the revenues over the amount required for normal expenditure; so that when the famine did occur Government should have sufficient surplus funds to meet the expenditure.*

Though famine would not occur every year, it was thought advisable to provide this surplus as against a recurring liability. But the disposal of this fund during the years that famine did not occur occasioned some

* The excellent monograph of Mr. Loveday on Indian famines may be mentioned here as supplying some interesting information in a handy form.

(a) Sir John and Richard Strachey: Finances and Public Works of India.

*"The Government in 1877 came to the conclusion that the ordinary income and expenditure of the State might at that time be considered to be..............in a state of equilibrium. It was therefore in the opinion of the Government necessary to improve the financial position by £1,500,000 a year on account of famine liabilities alone." (a).

criticism at the inception of the Fund, and considerable difference of opinion later on. It would be clearly unwise annually to accumulate the sum in the Treasury; not only because it would seem to be taxing people beyond the requirements of the State and losing interest on a considerable sum lying idle in the Treasury; but also because it would offer an unfair temptation to the executive to outrun their income by wasteful or injudicious expenditure. On the other hand, direct famine relief in normal years would be unnecessary. If the proposed fund was to serve the object of its authors it must be employed as soon as it was being formed.* It was ultimately decided to employ the fund for the purpose of (*a*) famine relief in any year and in any part where there was actual scarcity; (*b*) the construction of protective works like irrigation canals or railways, which, without being directly remunerative, would yet be of immense service in raising or transporting food-stuffs in famine-stricken areas.

Since its institution, the Famine Relief Fund has not invariably been maintained at the figure originally fixed Rs. 1½ crores or £1½ million. In years like those of 1887-88, the grant was practically suspended; and more frequently reduced. The following table shows the total amount spent and the various directions in which it was spent:—

Year.	Famine Relief	Extinction of Debt	Protective Railways.	Irrigation Works.	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
1881-82 ...	3,48,830	71,51,510	68,24,030	13,54,490	1,56,78,860
1886-87 ...	1,04,100	...	20,00,000	10,79,790	31,83,890
1891-92 ...	2,34,230	68,21,700	48,47,950	7,43,920	1,26,83,190
1896-97 ...	2,07,95,250	...	...	3,83,170	2,12,63,550

* As there has been some difference of opinion regarding the objects of the Fund and its employment, the following extracts from contemporary pronouncements by competent authorities may be usefully cited.

"The first claim on those receipts (from additional taxation imposed in 1877–78) being that of the Home Government for the repayment of debt already incurred on account of famine, I am of opinion that not less than one half, or say £750,000, should be held available for remittance to England in the next ensuing years on that account. The remainder may be appropriated at your discretion to the extinction of debt, to the relief of famine, or to the construction of protective works, not necessarily remunerative, but obviously productive in the sense of guarding against a probable future outlay in the relief of population." (Final orders of Secretary of State quoted in Strachey. cit. op. p. 191.)

"It was determined that this surplus should not take the form of a fund specially allocated to meet the cost of famine relief, because such an arrangement would be financially inconvenient and objectionable. The intention was simply that a source of revenue should be provided which would enable the Government to carry out the principle on which it had for some years insisted that relief of famine distress should be regarded as a charge constantly liable to recur, which must be met, like all other obligatory items of State expenditure. The money obtained, or so much of the £1 million as remained after meeting charges for famine during the current year, was to be applied to the discharge of debt or the prosecution of remunerative public works of a character likely to give protection to the country against the effects of drought." (Famine Commission-Report 1881, Part I, para. 100.)

"The object, therefore, of this Famine Insurance Fund was, by increasing the revenue, to avoid the constant additions to the debt of India which the prevention of periodical famines would entail by either applying that increase of income to works likely to avert famine and thus obviate famine expenditure, or by reducing annually the debt contracted for famine, so that if famine expenditure should again become inevitable, the reduction of debt made in years of prosperity would compensate for liabilities incurred during scarcity." (Report Par. Committee on Public Works in India 1879.)

Year.		Famine Relief Rs.	Extinction of Debt Rs.	Protective Railways. Rs.	Irrigation Works. Rs.	Total Rs.
1899-1900	...	3,11,23,770	...	...	5,33,985	3,16,57,755
1900-01	...	6,18,78,450	...	...	4,66,710	6,23,45,160
1901-02	...	79,37,715	42,69,570	...	10,60,395	1,32,67,680
1902-03	...	48,22,635	84,70,500	24,375	14,21,130	1,47,38,640
1903-04	...	3,05,265	96,63,670	14,49,075	21,66,690	1,35,85,200
1904-05	...	31,170	1,00,06,455	17,37,180	32,25,195	1,50,00,000
1905-06	...	20,38305	76,83,930	8,29,170	44,48,595	1,50,00,000
1906-07	...	46,15,725	49,85,745	51,630	53,46,900	1,50,00,000
1907-08	...	93,33,930	37,50,000	99,915	60,59,985	1,92,42,330
1908-09	...	1,48,81,185	37,50,000	1,050	59,12,625	2,45,44,860
1909-10	...	11,96,370	71,30,070	1,80,225	63,05,325	1,48,12,200
1910-11	...	35,040	90,16,425	4,00,965	52,71,180	1,47,23,610
1611-12	...	17,14,403	68,69,505	6,64,129	57,51,963	1,50,00,000
1912-13	...	28,33,278	51,48,053	6,21,158	63,97,511	1,50,00,000
1913-14	...	23,62,671	51,37,329	1,28,647	73,71,353	1,50,00,000
1914-15	...	41,98,277	33,01,723	19,669	75,19,669	1,50,00,000
1915-16	...	11,20,420	63,79,580	2,896	75,02,896	1,50,00,000
1916-17	...	28,14,254	71,88,879	7,146	50,04,013	1,50,00,000
1917-18	...	56,476	97,77,096	299	51,66,727	1,50,00,000
1918-19	...	46,16,514	56,85,032	286	46,98,740	1,50,00,000
1919-20	...	1,17,46,559	...	...	53,54,157	1,71,00,716
1920-21	...	26,64,017	63,77,939	60,841	60,18,885	1,50,00,000
1921-22	...	1,33,73,466	...	...	...	1,33,73,466
1922-23	...	1,58,62,374	...	...	...	1,58,62,374
1923-24	...	1,35,57,806	...	...	...	1,35,57,806

The policy of making the actual relief of famine, when it does occur, the first charge on the special grant is, as is evident from these figures, maintained even now. But since the report of the Commission of 1902 Government has begun more and more to rely on moral force, on putting heart in the people to enable them the better to fight famine. To this end, a more liberal policy of suspending the Land Revenue demand in times of scarcity or remitting the demand altogether has been adopted, along with the system of granting more freely the Takavi loans. But the system of more direct, more material relief is not abandoned. An elaborate machinery has been developed in every province to afford relief. The Government of India is kept informed of the state of crops and mortality in every province; a programme of relief works is kept ready and up-to-date in every district; and the whole country is divided into relief circles, each equipped with plant, and tools for the relief works, which may thus be started at any moment. Test works are opened as soon as it is clear that moral force would not alone suffice to meet distress; and if labour in sufficient quantities is attracted, these are converted into proper relief works in accordance with the programme already framed and approved. While poor-houses and gratuitous relief afford help to those unable to work, special measures are adopted to aid those unwilling to admit their poverty by a resort to the relief works. On the setting in of the next monsoon, people on the large works are removed to the smaller works near their villages and farms; they then return to their

normal occupation, with further assistance in the shape of loans to buy cattle, ploughs, seeds, etc. As soon as the next good harvest is assured, the few remaining works are closed, and gratuitous relief stopped. Along with the relief operations, a special medical machinery to deal with the usual concomitants of famine—cholera and malaria—is kept in readiness.*

Any criticism of the famine relief policy would be ineffectual without understanding the causes of famine. We may divide the causes of famine in India into three main groups, taking "famine" to mean a shortage of food-supply. **First** come those natural causes which, like the irregular, uneven, or uncertain distribution of rainfall, make famines in India appear to be peculiarly beyond the wit of man. In the **second** group, we may include such causes as are products of the existing social and economic organisation of India. The land revenue policy of the Government of India, for example, was contended by the late Mr. R. C. Dutt, to be the most important cause of distress during times of famines.† The minute division of land in India, or the extreme indebtedness of the people may also be instanced in the same connection. The **third** group comprises the influences which are the special offspring of a period of economic transition, through which India is undoubtedly passing now ‡. Unless each of these causes is properly understood, there can be no effective, or permanent cure of the periodical shortage of rains, and the consequent distress in India.

II.—Remedies against Deficiency of Rainfall

The relief of famine, when it occurs, will be successful only in proportion as these root causes of the misfortune are reached. The belief, once common, that famines were natural calamities against which human efforts would be of no avail, is now impossible to sustain. The most obvious and immediate cause of famine, the failure of the periodical rains, is capable of an easy remedy by means of artificial water-supply by wells, tanks, or irrigation canals. We have discussed, in the section dealing with irrigation revenues, the relation of such works to the relief of famine. It would suffice to mention here that taken collectively, the irrigation works of India have resulted invariably in a net profit to the Government, besides protecting several millions of acres from the effects of drought.§ This satisfactory result has not unnaturally been claimed to be due to the conservative, cautious policy of the Government. But to those who are impressed by the horrors of such a famine as that of 1899-1900, to those who consider the immense losses of human beings, of crops, of capital, which have been avoided by the irrigation works, such a policy cannot but seem to err

* No report is yet available as to the efficacy of this system in the last great famine of 1918-19.

† See particularly Dutt's "Open letters to Lord Curzon" 1900.

‡ Cp. Theodore Morrison's "Economic Transition in India" for a discussion of the effects of a similar transition in England in the last century.

§ These works now protect some 28 million acres, have cost the State Rs. 89·25 crores by the end of 1923-24, and yield a net income exceeding 7% on the total capital outlay. Schemes completed but not yet fully developed, and projects awaiting sanction, are expected to make the total of irrigated area to be 36 million acres.

unduly on the side of prudence. Even at the risk of some loss to the State, the money spent on unproductive irrigation works may well be regarded as an **insurance premium** properly laid out against a very probable calamity. Though the physical conditions in certain parts of India, like the uplands of the Deccan, do not admit of any easy river irrigation, they are by no means equally unsuitable to irrigation by tanks or wells. It is, therefore, not a hopeless hope that every cultivator in India may be effectually guaranteed against one season of inadequate rains by a more liberal expenditure on irrigation works of every kind. The accepted policy of the Government of India had led them to spend without stint on costly and often unprofitable railways, while the irrigation projects had to satisfy the stringent tests of commercial advisability before they could be sanctioned. It is true, indeed, that both irrigation works and railways would be necessary for protection against famine. It may also be admitted that in normal times the railways would be indispensable for carrying the surplus produce raised by the irrigation works to the most profitable markets. Unless the cultivator is in a position to dispose of his crops with profit, he would not be able to meet the extra cost of the irrigation works, whether it takes the form of a government water-rate, or of the expense of maintaining and repairing a well or a tank. And, finally, it may also be conceded that in proportion as the cost of construction of railways is higher than that of irrigation works, the relative annual outlay on the railways is bound to be greater than that on irrigation works.* But the main objection of the Indian public opinion to the railway policy of the Government is that railway projects have not only been preferred in the past to irrigation works, but that they have been preferred at the cost of the latter.

III.—Excessive Morcellement of Agricultural Land

Besides this obvious cause of famines, there are others less obvious, but not the less effective. The remedies for these more hidden causes must be drastic enough if India is to have a complete, scientific scheme of famine insurance. The late Mr. R. C. Dutt's many economic writings strongly express the prevalent belief in India that famines are the inevitable result of the land revenue policy adopted by the present Government of India outside Bengal, and parts of the United Provinces and Madras Presidency. The **section** of this work dealing with **land revenue** contains a discussion of this question. Here we need only mention that owing, it is believed, to a heavy revenue demand, which is periodically enhanced, the cultivator has no reserve of surplus produce or capital left to fall back upon in times of scarcity. The dearth of capital amongst Indian cultivators is a fact universally admitted, though its origin has been variously explained. Whatever the reason, the absence of a reserve fund in the classes directly affected by failure of rains cannot but intensify the sufferings of the people. The institution of co-operative credit, or the grant of Takavi loans, are

* For a good scientific discussion of this question of railways *vs.* irrigation works, see Loveday: Indian Famines.

palliatives, not remedies. The relief of indebtedness among the agriculturists is rendered all the more difficult by the absence of any data to calculate the **exact amount** of that indebtedness. The situation is, indeed, tragic enough to demand heroic remedies eventually; and it would not surprise us if a future financier undertakes a **scheme of wholesale land purchase by the State, with a view to its re-grant after all agriculturists' debts of more than 20 years' standing, or less than 5 years' produce value of each holding, whichever is greater, are cancelled.** As it is, we can only suggest two prosaic—not remedies, but,—reforms, which would mitigate the intensity of the existing situation, and prepare the way for more heroic measures of radical reform :—

(*i*) All debts contracted by agriculturists in future must be registered on pain of being declared illegal. This would show us, in course of time, the exact amount of indebtedness of the agriculturists, and also the burden of the debt. (*ii*) The establishment of a Land Bank in each Province by the State would give a mobility to landed wealth which is now the one great defect of that property in India. The co-operative movement, after 20 years of universal encouragement, must, from this stand-point, now be declared to have proved a failure. It has failed in India as much for want of sufficient capital, as owing to the inability of the co-operators to manage their concerns. With a land bank of the type of the *credit Foncier* of France or of Germany studiously fostered, we may expect an accumulation and investment of capital in land, without which land improvement will be impossible, and resistance of the cultivator in times of famine unthinkable.

IV.—Economic Transition

The absolute want of food and the consequent heavy mortality, which was such a heart-rending feature of the earlier famines, now no longer occurs. The rapid extension of railways at any cost may be traced directly to this horror of absolute starvation for want of food supplies. But the railways do not—and cannot—prevent that want of employment which invariably results in a famine. The one great occupation of the people is necessarily suspended owing to the failure of rains; and, thanks to the free competition of the machine-made goods of England, the profitable bye-employments, *e.g.* weaving, which helped so much to mitigate the intensity of the old famines, are also destroyed. It is the realisation of this growing want of staying power that has made many an Indian publicist declare in his impatience that famines are the direct results of British rule in India as in Ireland. Historically the proposition is absurd.* But it can safely be laid down that owing to a conjuncture of circumstances,—for which it is almost impossible

*For a list of all the known famines in India, see Loveday, Op. Cit. Appendix. Of course only the better known famines, affecting very large tracts of the country, are included. The great famine towards the close of the reign of the first Maurya Emperor, Chandragupta, is alleged to have lasted twelve years, and is supposed to have been the direct cause of the colonisation of the southern plateau by the Aryan people of the north. Akbar's reign is also noted for the occurrence of two or three famines of serious intensity. Cp. Vincent Smith, "Akbar" and Moreland "India at the death of Akbar,"

to hold any individual statesman responsible—the British rule in India has synchronised with the increasing inability of the people to tide over a single bad season. And the tragedy seems to be all the more harrowing when we consider the means that the earlier rulers of India had at their disposal to relieve distress, and those which the modern Government can command, and when we compare their relative success. The famines in India will, perhaps, never lose their tragic aspect, as long as means are not adopted to give the people the staying power in which they are so deficient; and this would not be realised until the heavy load of debt which oppresses the small cultivator is removed or relieved. The State demand of land revenue, at least in the temporarily settled districts where the State deals directly with the cultivator, should also be made conformable to the principle of equity in the distribution of the tax burdens, and exemption should be granted from the State demand to those agriculturists whose net produce is below the bare minimum of existence; the average holding is made of a size and extent suitable to admit to economic farming. **To achieve these an agrarian revolution of the widest dimensions is inevitable.** But we cannot expect the present Indian Government, nor even its Indian substitute with only a change in personnel but no change in spirit, to undertake such far-reaching fundamental changes.

A redistribution of land, a wholesale repudiation of agrarian indebtedness, an entire re-casting of the land revenue policy with all that it implies—will, all combined, mean a revolution, the very conception of the magnitude and the economic necessity of which we must despair of our present Government—or its Indian disciples—ever being able even to entertain.

We conclude, then, that even if it be not possible, humanly speaking, to abolish famines altogether, the state in India has still a reserve of untried or imperfectly attempted resources, which can reduce the frequency and alleviate the intensity of famines. For the rest, it is a matter of time. The industrial transition, when accomplished, would by itself render famines much less burdensome than they are now.

V.—Review of the Present Policy of Famine Relief

The details of the existing policy of famine relief afford very little occasion for unfavourable criticism. It is true, indeed, that relief, as it is now granted, has not a faint suspicion of charity, from accepting which the better minded of the suffering people most naturally shrink. The aid afforded them by private charity is irregular, inadequate, unreliable. It would, doubtless, be a most regrettable waste of national resources if these better kind of people were suffered to die through a sense of pride which would not allow them to accept what really is their right as citizens. **It is, therefore, absolutely necessary that famine relief should be declared and accorded as a simple right of Indian citizenship.** There are corresponding burdens, in so far as Government levies additional taxation, in normal times for this purpose. That the people may the better realise

this right and its burdens, it would be advisable to raise the special revenue more directly from the people most likely to be primarily affected by the distress. Additional burdens on this the poorest section of the population would not, indeed, be lightly recommended. But we feel that a sense of having themselves contributed, in however small a proportion, is so material in breaking down this sense of pride, that we have no hesitation in making the suggestion, to be realised, if necessary, by a readjustment of the tax-burdens in other directions so that there should not in the aggregate be any unfavourable change. For the same end of a more equitable participation in the relief afforded by the State, we would also suggest that the task of administering it be made over wholly to the local authorities, the supreme Government retaining the right of a general supervision and occasional contributions in cases of exceptional hardship.*

VI.—Agriculture

As closely connected with the expenditure of famine relief we may notice, next, the outlay on the Agriculture Department. The present department has a history of less than 20 years. Prior to 1905 the Government of India had, under official control, a number of experimental farms; but the work of the then existing agriculture department consisted chiefly in the simplification of the revenue settlement procedure, and the improvement of the land records system. The Imperial Agricultural Department was organised in 1901; an Inspector-General† was appointed in 1903; the establishment of the Agricultural Research Institute and College at Pusa led to further expansion, and in 1905 the Government of India decided to allot annually £133,000‡ for agricultural experiments, research and instruction. Government intended, by this outlay, ultimately to establish in each large homogeneous tract of the country an experimental farm, supplemented by numerous small demonstration farms, to create an agricultural college in each of the larger provinces, and to collect an expert staff to run the colleges, to conduct research, and, generally, to help and develop the agricultural resources of India.

At the present time, the work of the agriculture department consists partly in experiment and research leading to improved methods of raising crops, of fighting agricultual pests &c. Besides this, the department helps to

* Provision for famine relief and insurance is nowadays, as already noted, a provincial concern entirely. But lest the provincial authorities might neglect this awful responsibility, the supreme Government has made special rules of the famine insurance funds of stated dimensions by each provincial government. The nature of this obligation as a sort of an insurance provision is not quite realised by the powers that be. Social insurance against the commonest contingencies of life generally must be provided on a national scale, though the principle of decentralised authority may be allowed in actual administration. In another work of the present writer, **Constitution, Functions and Finance of Municipalities in India** [Shah & Bahadurji], a suggestion has been put forward about municipalities taking up the obligation of providing social insurance against all normal contingencies of industrial life within their jurisdiction, leaving agricultural insurance still to the provincial governments.

† This post was abolished in 1911–12.

‡ This grant was to be shared with the Civil Veterinary Department.

introduce in the methods of the Indian cultivator ascertained improvements by demonstration. We need but mention the instance of cotton, the improvement of which has from the first attracted successfully the attention of the department. New agricultural implements and machinery, suited to the local conditions, have also been popularised as the result of the departmental activity. Information as to progress in agricultural matters abroad is regularly disseminated by the department, and attempts are made, by a concentrated study of local conditions, to obviate local difficulties as far as possible.

The charges noted in the margin show the growth of the department and its activities. At the beginning of the century, the total charges on agriculture amounted to £10,479 including figures of the "local" expenditure, which have been excluded from the figures of the later years. In a country so largely dependent on agriculture for its national wealth as India, this outlay cannot be too highly commended. The absence of a rich land-lord class, the ignorance of the agricultural classes at large, the excessive sub-division of land—all combine to keep Indian agriculture bereft of the benefits of modern sciences, and of modern mechanical improvements. The total national income of India, estimated at about Rs. 2,364 crores in 1921-22,† is made up of more than 2,097 crores of agricultural produce.‡ To develop this wealth cannot but be of the highest concern to an intelligent, sympathetic, national government. Of the total area of over 660 million acres available for agriculture in India, only about 220 millions or a third is actually cropped; and though nearly 230 million acres are covered by forests or other uncultivable areas, there is yet ⅓ of the total land available for agriculture remaining uncultivated in India.§ To bring this land into cultivation would require capital and other resources, which the ordinary Indian cultivator cannot command without the aid of the State. Additional outlay, then, on agriculture in India would, if undertaken, more than repay itself by adding to the wealth of the country, if only it is properly distributed. As however the entire problem of agriculture in India is now to be reviewed by a royal commission (1926-27) we need not say more on the subject for the present.

Agriculture charges.

	Rs.		Rs.
1907-08	45,41,220	1916-17	91,74,223
1908-09	51,28,095	1917-18	1,05,31,989
1909-10	59,02,845	1918-19	1,23,46,531
1910-11	58,51,695	1919-20	1,39,52,595
1911-12	65,85,441	1920-21	1,69,25,772
1912-13	69,60,252	1921-22	1,97,94,116
1913-14	79,72,863	1922-23	1,92,24,054
1914-15	84,50,243	1923-24	1,92,76,016
1915-16	89,16,350		

These figures* are taken, since 1911-12, from the decennial statistical abstract of the Government of India.

* These figures do not include expenditure on cinchona plantations, botanical gardens, or buildings. The total expenditure is distributed as follows:—(1914-15).

Agriculture...	Rs. 54,08,566	Against these charges must be set off receipts amounting to £63,217.
Veterinary...	„ 22,13,249	
Co-operative Society ...	„ 8,31,489	

† See an article by Sir G. Paish in the Journal of the Royal Statistical Society, July 1914. See also *"The Wealth and Taxable Capacity of India"* by K. T. Shah and K. J. Khambata.

‡ Cp. Dutt's Report on Prices in India, 1912.

§ For these figures, see the Agricultural Statistics of India.

VII.—Expenditure on Posts and Telegraphs

Unlike the English model, the post office in India has never been worked as a great revenue department. Taking into consideration the poverty of the Indian people, the Government of this country takes a legitimate pride in performing certain very common postal services at the lowest cost to the people.* Though the postal receipts in the last few years have regularly exceeded the corresponding expenditure, the policy has been consistently followed of applying the excess, if any, to the improvement of the department. The sub-joined table shows the constant improvement.

Year.	Receipts. Rs.	Charges. Rs.	Plus or Minus. Rs.
1899–00	1,96,24,725	1,62,93,870	33,30,855
1900–01	2,03,57,340	1,68,73,410	34,83,930
1901–02	2,03,06,835	1,77,83,205	25,23,260
1902–03	2,14,49,025	1,87,02,945	27,46,080
1903–04	2,36,07,295	1,94,77,950	41,29,345
1904–05	2,36,39,700	2,05,01,685	31,38,015
1905–06	2,47,72,155	2,18,19,030	29,53,125
1906–07	2,62,67,190	2,31,03,705	31,63,485
1907–08†	4,24,61,940	3,84,86,175	39,75,765
1908–09	4,20,55,755	4,08,20,235	12,35,520
1909–10	4,24,51,200	4,13,07,030	11,44,170
1910–11	4,49,11,215	4,11,30,675	37,80,540
1911–12	4,83,25,557	4,65,36,052	17,89,505
1912–13	5,15,48,401	4,69,87,693	45,60,708
1913–14	5,39,77,789	4,90,94,761	48,83,028
1914–15	5,39,54,603	4,88,58,948	50,95,655
1915–16	5,68,12,163	4,72,45,202	95,66,961
1916–17	6,26,19,109	5,16,20,803	1,09,98,306
1917–18	6,92,50,348	5,35,15,945	1,57,34,403
1918–19	8,01,44,507	5,96,24,310	2,05,20,197
1919–20	9,20,61,614	7,13,43,666	2,07,17,948
1920–21	9,62,00,476	9,43,66,774	18,33,702
1921–22	9,55,03,001	10,64,50,720	−1,09,47,719‡
1922–23	10,13,14,477	9,67,83,565	45,30,912
1923–24	10,32,14,321	9,61,39,276	70,75,045
1924–25	9,97,28,488	8,97,02,878	1,00,25,610
1925–26 R. E.	10,23,47,000	9,56,66,000	66,81,000
1926–27 B. E.	10,64,65,000	10,17,50,000	47,15,000

* The rates of carriage of the following postal articles are in India, in the United Kingdom, and in France as follows :—

	India	United Kingdom.	France.
Post Cards	¼ anna		
Letters oz.	½ anna	½ d.=⅓ anna	5 c=⅓ anna
Letters over	½ anna	1 d=1 anna	10 c=1 anna.

The quarter anna post-card was abolished in 1921 and the ordinary letter postage was raised to one anna in 1922.

† The figures since 1907-08 are for post office and telegraphs combined, while the previous figures are for the post office exclusively.

‡ The falling off in the surplus for the year 1920–21 is due to the recommendations of the Hazeltine Committee, which led to a large increase in the pay, &c. of the postal staff.

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This account, however, of the postal expenditure is incomplete. Non-effective charges, like pensions and rent of buildings, are either not included, or charged to other departments, like the P.W.D. But this complaint is common throughout the financial organisation in India.

Before 1883, the Indian telegraph department was kept strictly separate from the post office. In that year arrangements were made to make certain post offices also serve as telegraph offices. The beginning of a union

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Receipts, charges and general financial position of Post Office in 1925-26 :—

Receipts—	Rs.	Amount. R.
Postage realised in cash	17,61,513	
Deduct—Refunds of postage ...	2,647	
		17,58,866
Gross sale of ordinary postage stamps... ...	7,05,07,396	
Deduct—Civil Department share	47,39,000	
Net payment made by India in respect of correspondence and parcels exchanged with other countries ...	1,31,029	
	46,07,971	
Net Post Office and Telegraph Department share of sale of ordinary postage stamps... ...	6,58,99,425	
Gross sale of service postage stamps... ...	85,97,061	
Total Post Office and Telegraph Department share of sale of postage stamps	7,44,96,486	
Deduct—Telegraph Department share ...	2,07,70,476	
Net Post Office share of sale of postage stamps	...	5,37,25,010
Receipts on account of money orders and British postal orders	...	1,09,36,365
Other Receipts ...	...	5,70,035
Total Receipts as per Post Office Accounts for 1924-25		6,69,91,276

Charges—	Rs.	Amount. Rs.
Control	...	37,68,819
Office of Accounts and Audit ...	...	21,26,461
Presidency and District offices	...	4,29,36,871
Conveyance of mails—		
Subsidies and payments to Railway Companies, Receipts and Charges ...	...	1,22,15,325
Stationery and Printing ...	...	25,44,204
Stores and Workshop Establishment	...	25,028
Miscellaneous ...	...	4,47,196
Superannuation allowances and pensions ...	...	22,02,290
Payments to British Treasury under Postal arrangement ...	...	3,01,470
Total Charges ...	...	6,65,67,664*

* Exclusive of Credit for services rendered by Posts and Telegraphs Department to other Departments Rs.23,77,23.

thus made was further considered in 1905, and the accounts, as noted above, began to be shown as one item since 1907-08. In 1910, the two departments were reorganised, and their circles were made co-terminous. From April 1912 the Director-General of the Post Office was also made the Director-General of Telegraphs, and the experiment has since been completed in the fusion of the two departments into one. Since 1906 the entire postal service, including the telegraphs, has been maintained at the cost of the imperial revenue, the administrator of the old district postal arrangements, originally vested in district officers, being now entrusted to local postal authorities.*

The Indian telegraphs department, in spite of a very rapid growth of the business in the present century, has not yet shown financial results which could be compared to the postal department. The table in the margin shows its development.

Years.		Receipts.	Charges.	Net result plus or minus.
		Rs.	Rs.	Rs.
1861–62	...	7,34,520	35,82,230	–28,47,710
1875–76	...	30,90,400	49,06,240	–18,15,840
1895–96	...	10,85,940	8,97,853	1,83,087
1905–06	...	1,40,97,810	1,61,47,335	–24,99,525
1919–20	...	3,77,29,580	3,16,35,808	59,93,772
1923–24	...	3,15,77,703	3,75,73,492	–59,95,889
1924–25	...	3,27,70,923	3,37,43,676	– 9,71,753

But in considering the net financial results of the Indian telegraphs department, it must be observed that (*a*) a part of the income of the department is absorbed by the railways which despatch a number of public telegrams. The telegraphs department has not the monopoly of the telegraph business as the Post Office has of letters and parcels, &c. The expenditure on telegraphs includes building and stationery charges, as also the non-effective charges of pensions etc. On the other hand (*c*) the telegraph department accounts for a considerable amount of capital outlay, which amounted, from 1851 to 1924-25 to Rs. 19,89,62,832; but in considering the profits of the department no allowance was made until 1918-19 for the interest on this capital which at 4% would account for more than 75 lakhs. In 1919-20, interest on capital outlay was debited for the first time against the revenues of the telegraph department, and amounted to Rs. 54 lakhs, while the capital outlay at the end of the year amounted to Rs. 14,67,68,805.† Similarly (*d*) the annual charges of construction, though regarded as a capital outlay, are included in the ordinary revenue and expenditure account. If we add the interest on the capital outlay in connection with the telegraph service, the surplus shown in the combined account of the post office and telegraphs will be substantially reduced in the later years.

The post office and telegraph render very considerable services to the Government, the financial measure of which is to be found in the amount of service stamps and state messages, included in the revenue side of the

* The operations of the Imperial Post Office also include those of the Native States that have no such arrangements of their own, as well as those, that, like Kashmere, Baroda and Mysore, have surrendered their independent organisation.

† Table analysing the receipts and charges of the telegraph dept. 1924–25.

[*Continued on p. 181*

account. These payments by the state are only cross entries in the public books of account. If these receipts were excluded from the account, there would be a distinct deficit in the Indian post office and telegraphs budget.

As regards the other bnsiness conducted by the post office, besides conveying letters and parcels, we need mention only the **Savings Banks** and the system of Money Orders and Value Payable Parcels service. Government Savings Banks were established in the presidency towns as early as 1833, and in the districts in 1870. The post office opened such banks in

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Telegraph Dept.

	Rs.	Rs.
Receipts—		
Message revenue	3,49,71,710	
Total Deduction	99,11,922	
Net message revenue		2,50,59,788
Miscl. Revenue—		
Rent of wires and instruments leased to Railways and Canals ...	39,58,804	
Rent of Telephones ...	27,63,980	
Other Receipts—		
Royalties from Telephone Companies	2,47,234	
Recoveries from Guarantors ...	87,305	
Trunk Telephone Call fees. ...	4,38,250	
Sale of books, forms and maps	11,314	
Sale of Telegraph Gazette ...	18,532	
Wireless Branch, fees & Royalties	19,031	
Other Items ...	1,21,512	
House rent recoveries	33,485	
Special recoveries	3,287	
Recoveries on account of Electric Installations	9,604	77,12,158
Total Receipts as per Telegraph A/c		3,27,71,946

	Rs.	Rs.
Charges—		
Net Control ...		11,33,692
Net account and Audit	1,17,898	
Total presidency and district offices		1,41,77,266
Net Store and Workshop Establishment ...		10,18,606
Total Stationery & Printing ...		2,61,970
Net Maintenance of Telegraph lines		55,74,344
Interest on Dept		68,59,192
Superannuation allowances and Pensions ...		6,92,193
Total charges as per Telegraph A/c. ...		3,02,97,011

In addition, the capital account is charged with interest Rs. 67,71,167 in 1924–25 and miscellaneous charges of Rs. 34,46,665.

1882-83, and took over the Districts Savings Banks in 1886 and the Presidency Savings Banks in 1896. The number of depositors has steadily grown till they now number 2,164,473 (1924–25) while the deposits aggregate Rs. 18,50,10,695. Interest was allowed on all deposits upto 1905 at $3\frac{1}{2}$ per cent. per annum and since that date at 3%. The attempt made in that year to attract fixed deposits at a slightly higher rate of interest proved abortive, and was discontinued in 1911. During the war the desire to popularise the various public loans has led to a further development of the banking facilities afforded by the post office in India, which will be more particularly noticed in the section dealing with the public debt of India.

The **Money-Order** system, like the savings banks, is an imitation of the English practice. It is confined to the remittance of money from one place to another at a charge of Re. 1 per 100, a charge far in excess of the banker's commission for inland remittances, wherever proper banking facilities are available in India. In 1924–25 nearly $34\frac{1}{2}$ million money orders were paid, remitting 86,40,57,417 rupees, including the foreign Money Orders amounting to Rs. 3,66,20,631. The post office derives a revenue of nearly a crore of rupees from this business. The only improvement on the English model is the introduction of the **Value Payable Parcel System,** under which the post office undertakes to collect the price of parcels, sent through post, from the buyers. But the system, though an improvement, loses much of its value owing to the limitation of 12 lbs. on parcel weight and also owing to its being confined to India exclusively.* The carriage of insured articles accounted for nearly $5\frac{1}{3}$ million letters and parcels in 1924-25 aggregating in value Rs. 13'30 crores. The value payable parcels numbered $11\frac{1}{2}$ million and were valued at 19'87 crores in 1924–25.

As already observed, the Indian Government prides itself on the lowness of the charge in connection with the post office. The inland post card was sold since its introduction in 1879 at $\frac{1}{4}$ anna, while the inland letter was charged at $\frac{1}{2}$ anna. The weight carried for $\frac{1}{2}$ anna was $\frac{1}{2}$ tola between 1869 and 1905, $\frac{3}{4}$ tola between 1905 and 1907, and 1 tola or 2/5 of an oz. since that date. The one anna weight was raised in 1907 from $1\frac{1}{2}$ tola to 10 tolas. Since 1908 the newspaper rates have been reduced half, being now 8 tolas for $\frac{1}{4}$ anna, 40 tolas for $\frac{1}{2}$ anna, and extra $\frac{1}{2}$ anna for every additional 40 tolas or fraction thereof.† Inland parcel rate was reduced by half in 1907, while one anna for $\frac{1}{2}$ oz. rate applied to all letters to England, the British possessions and Egypt upto 1922, when it was raised to 2 annas. The telegraph rates were of three classes prior to 1909: ordinary, urgent and deferred, the ordinary being (1883-1903) 1 rupee minimum, or 1 anna, per word, the urgent being double, and deferred half the ordinary charges. In 1904-05 a deferred telegram of 10

* Since May 1920, the system has been extended to the United Kingdom.

† The budget of 1921–22 increased these charges still further.

words for annas 4 was introduced, additional words being charged at 1 anna each as before. In 1909, the deferred rates were abolished, and the two classes of ordinary and express established, the former being charged 6 annas for 12 words, and ½ anna extra for each additional word, the latter one rupee and one anna respectively. Special rates are allowed for press telegrams; and facilities have, since 1912, been introduced for those who cannot avail themselves of codes, for deferred telegrams in plain language at half the usual rates between India and the United Kingdom or the British possessions.

All these rates were substantially increased during and since the late war. After eight years of peace this tax on communication has not yet disappeared.

The telephone service in India is in private hands, but the wireless telegraphy is in the hands of the State. For the telephone the Government obtained a gross total rental of Rs. 47,72,325 in 1924-25.

VIII.—Critique of the Indian Postal Finance, and Suggestions for Improvement

The post-office in India has great possibilities as a revenue department, without adding in the least to the tax on communications. So far the department has been administered perfunctorily on the English model, the Indian Government taking credit only for its relatively low rates as an improvement. We, in India, have introduced none of those labour-saving appliances, which, like the automatic stamp selling machine, while affording a more regular and continuous service to the public, reduce very considerably the charges of the department. Our postal parcels service, in spite of a very considerable system of State and guaranteed railways, is limited to 11 or 12 lbs. to the great inconvenience of the public, and considerable loss of revenue to the State. The limit on the weight of parcels was intelligible when they had to be carried by runners or vehicles driven by animals. But in these days of railways, the limit is harmful alike to the State and the public. There is no doubt that the State would gain considerably if the limit were raised to 1 cwt. or even to 1 maund of 82 lbs., even though the charges were levied uniformly according to weight alone and irrespective of distances. With the one maund limit, there ought to be an addition of about a crore of rupees net to the postal revenues at the most moderate calculations.* The Post Office Savings Banks impose rules on their depositors alike vexatious and uneconomical as to the interest allowed, the time for withdrawal, the maximum and minimum interest allowable etc. There is no reason why the deposits may not be doubled with proper attractions and facilities. And if the most profitable employment of the money thus obtained is carefully thought out, the Government might remove from their shoulders the dead weight of this floating debt, without

* There are no means for more elaborate calculations except the figure supplied by the Railways. The above estimate is very rough..

reducing by an iota the safety of the depositor. On the maximum possible deposits of Rs. 50 crores, the 4% rate would mean a charge of 2 crores; but the money handed over to an industrial or land bank guaranteed by the State would yield at least 6%, if not more, and thus afford a practical saving to the State of 1 crore at the same time that the public gets better interest. The introduction of the system of the postal cheque may well be suggested in this connection. It would very much cheapen the inland remittance, and yet add to the income of the State. The money order receipts now amount to nearly a crore of rupees. If this service is continued, and a special postal cheque introduced for the benefit of the depositors, not only would the deposits increase in amount and their balance be more substantial and more regular, but the addition to the stamp revenues and remittance charges at ¼ the present rate would be considerable. At 1% the present income to the State means remittances of 90 crores. If half this amount is added to the deposits, that would mean Rs. 40 crores in current account, on which the interest difference would alone add to the public income 2 crores. The additional charge for the service would barely add 5 lakhs to clerical and similar establishments. Lastly the post office has a very large field for development as insurance agency to the public at large. The private insurance companies now levy a tax of several crores even in such a backward country as India, where insurance benefits are so little understood. The State would afford a much better security to the assured than the private company, intent on finding every subterfuge or legal trickery to evade or reduce its liability even if the charges are identical.* If all these changes are given effect to, and the department is worked economically enough to combine revenue considerations for the State with the demands of public service, it would not be difficult to obtain a clear net additional annual income of Rs. 5 crores from the post office in the very first year, with every promise of regular increase with the development of the country.†

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* See for an exhaustive treatment of this question of development of the post office the Fabian Society publication (1916) " *How to pay for the War* " See also the *Constitution Functions and Finance of Indian Municipalities*, by Shah and Bahadurji.

† An idea of the volume of business transacted by the Indian Post Office may be had from the following statistics. In 1924-25 there were 19,652 post offices which employed 87,089, runners and boats, and carried mails 36,569½, miles by railway, 18,485 by steamers, 8,763 by carts, horses, camels, etc. and 5,211, by motor service.

Estimated no. of unregistered articles of the letter mail given out for delivery and actual no. of registered articles and parcels posted.

(Articles of the letter mail.)	Total for 1924-25.	Ord. unregistered packets ...	79,651,237
Paid unregistered letters ...	478,328,996	(Articles of the parcel mail)	
Registered letters & packets { ordinary .	24,257,062	Ord. registered parcels ...	5,991,556
Registered letters & packets { value payable ...	5,441,612	Insured parcels ...	1,219,477
Insured letters	4,438,109	Value payable registered parcels	6,061,534
Post cards	542,365,050	Ord. unregistered parcels ...	1,207,567
" Registered " newspapers...	74,378,525		

Had issued money orders to the amount of Rs. 87,72,33,464 in 1924-25.

IX.—Mint,* Civil Buildings, Ports and Pilotage

The charges in this section are comparatively unimportant. Since the closure of the Indian mints to the free coinage of silver, the mint has become a Government monopoly. An abstract of receipts and charges in connection with the mint is given in the margin. The swollen receipts and charges in 1900-01 and 1903-04 are due to the heavy coinage in these years when the Government had not yet definitely resolved upon crediting the large profits to a separate head of the Gold Standard Reserve. So great was the confusion that they treated the profits of 1901-02 as an extraordinary surplus, which may be *utilised for purposes of famine* relief in that period. The surplus of receipts over expenditure arises from the fact that the Indian mint is frequently engaged in heavy coinage for other governments to whom a fee is charged for the service. Partly the surplus is also the result of profits on small coinage. The following items constitute details of the mint charges in the Budget of 1926-27.

Year.		Receipts.	Charges.
		Rs.	Rs.
1899-00	...	51,76,365	8,38,620
1900-01	...	4,75,93,125	4,72,91,385
1901-02	...	83,30,535	75,60,435
1902-03	...	61,68,570	63,60,210
1903-04	...	4,32,71,640	4,17,13,775
1904-05	...	30,96,150	17,68,155
1905-06	...	48,17,745	18,01,185
1906-07	...	62,92,470	24,92,970
1907-08	...	66,58,770	24,73,515
1908-09	...	15,38,310	28,81,935
1909-10	...	18,89,295	21,55,995
1910-11	...	29,41,650	13,85,536
1911-12	...	55,06,507	17,47,600
1912-13	...	73,10,375	21,35,152
1913-14	...	50,97,614	19,89,449
1914-15	...	10,42,465	21,25,231
1915-16	...	15,28,767	13,40,590
1916-17	...	1,03,47,982	25,11,174
1917-18	...	77,61,011	25,10,727
1918-19	...	2,74,02,212	45,87,146
1919-20	...	2,67,99,408	51,41,084
1920-21	...	73,48,809	28,69,400

Mint

		Accounts.	Revised Estimates.	Budget Estimates.
		1924-25	1925-26	1926-27
A.	Total charges for Calcutta Mint	3,37,196	4,47,000	4,93,000
B.	,, Bombay ,, ...	4,79,944	4,95,000	5,60,000
C.	Loss of Coinage ...	3,81,748	3,66,000	3,76,000
D.	Purchase of Local Stores ...	603,31	1,90,000	2,30,000
E.	Works	...	97,000	...
F.	English charge (High Commissioner) on Stores	...	18,000	20,000
	Total ...	13,67,814	16,12,000	16,86,000

* The mint figures proper were :—

Year.		Receipts.	Charges.
		Rs.	Rs.
1921-22		14,89,091	16,73,299
1922-23		26,94,411	15,95,525
1923-24		17,34,017	15,54,647
1924-25		41,77,522	13,92,373
1925-26	B.E.	32,31,000	16,69,000
1926-27	R.E.	25,22,000	17,22,000

But were inflated on account of currency additions, the combined figures being :—

Year.	Receipts.	Charges.
	Rs.	Rs.
1921-22	4,37,42,093	1,07,48,311
1922-23	3,62,03,131	1,03,09,731
1923-24	3,12,73,991	99,07,398
1924-25	3,99,32,894	71,41,079
1925-26	4,61,55,000	71,94,000
1926-27	4,29,68,000	78,24,000

X.—Ports and Pilotage

The ports and pilotage charges consist of the marginally noted items which hardly call for any comment.

Budget Estimates for 1926-27.

		Ports and Pilotage.
		Rs.
1.	Salaries and allowances	1,62,150
2.	Victualling &c.	40,000
3.	Purchase of marine stores and coal	6,00,000
4.	Pilotage establishment	8,91,000
5.	Ports	5,27,096
6.	Lighthouses and Beacons	13,96,754
7.	Charges in England	5,000
	Total	36,22,000
	Receipts	24,90,000

In connection with the charges of civil buildings, we may observe that the outlay in connection with the new Delhi was defrayed out of current revenues. The late Mr. Gokhale was against this course, and advocated that this expenditure be treated as a capital charge, which should be met from the borrowed money. As the works cannot be called productive, it would be difficult to sustain this contention on sound financial grounds.

CHAPTER VI

Expenditure of the Government of India in England

I.—Constitutional Aspect

The expenditure of the Government of India in England—the so-called home charges—though already considered under the general expenditure, require special consideration for special reasons. This expenditure is, in the first place, outside the control of the Government of India, as it is disbursed by the Secretary of State, on account of the Government of India in England. In any scheme of economy that the Government of India might desire to introduce, this large expenditure, amounting to nearly 30 million pounds a year, or about 25 per cent. of the total expenditure of India,—must necessarily be left out. We have discussed elsewhere the constitutional changes that must be made in order to bring the whole of the expenditure of India under the control of the Government of India. We shall here merely observe that this extra Indian expenditure requires special study, as its peculiar character is likely to give rise to considerable misunderstanding. The Indian public opinion has, ever since the late Mr. Dadabhai Naoroji published his book on *"Poverty and Un-British Rule in India,"* unanimously considered these home charges as a net loss to India without any corresponding return. The peculiarity of this expenditure cannot be denied by the apologists for the Government of India. But they have strenuously endeavoured to show that India receives an equivalent return for the home charges. We shall state and examine briefly these two views below.

The following table shows the growth of the home charges :—

Year.		Amount.	Year.		Amount.	Year.		Amount.
1859–60	...	5,042,945	1873–74	...	7,635,463	1887–88	...	15,389,065
1860–61	...	5,394,646	1874–75	...	7,888,817	1888–89	...	14,983,221
1861–62	...	5,209,264	1875–76	...	7,902,346	1889–90	...	14,848,923
1862–63	...	4,943,425	1876–77	...	13,229,646	1890–91	...	15,568,875
1863–64	...	4,777,630	1877–78	...	13,756,478	1891–92	...	15,974,699
1864–65	...	4,802,401	1878–79	...	13,847,219	1892–93	...	16,334,541
1865–66	...	4,981,185	1879–80	...	14,543,277	1893–94	...	15,826,815
1866–67	...	6,704,602	1880–81	...	14,418,986	1894–95	...	15,707,367
1867–68	...	6,852,419	1881–82	...	14,399,083	1895–96	...	15,603,370
1868–69	...	7,951,186	1882–83	...	14,101,261	1896–97	...	15,795,836
1869–70	...	7,677,850	1883–84	...	15,030,195	1897–98	...	16,198,263
1870–71	...	8,018,253	1884–85	...	14,100,982	1898–99	...	16,303,197
1871–72	...	7,758,353	1885–86	...	14,014,733	1899–1900	...	16,392,564
1872–73	...	7,916,869	1886–87	...	14,409,949			

Year.		Amount.	Year.		Amount.		Year.		Amount.
1900–01	...	17,200,957	1909–10	...	19,122,916	*	1918–19	...	23,629,495
1901–02	...	17,368,655	1910–11	...	19,581,563		1919–20	...	25,541,288
1902–03	...	18,361,821	1911–12	...	19,957,657		1920–21	...	30,964,509
1903–04	...	18,146,471	1912–13	...	20,279,572		1921–22	...	31,698,354
1904–05	...	19,473,757	1913–14	...	20,311,673		1922–23	...	31,744,737
1905–06	...	18,617,465	1914–15	...	20,208,598		1923–24	...	34,156,480
1906–07	...	19,028,408	1915–16	...	20,109,094		1924–25	...	30,093,456
1907–08	...	18,487,267	1916–17	...	21,145,627		1925–26 R.E.		27,807,700
1908–09	...	18,925,159	1917–18	...	26,065,057		1926–27 B.E.		27,264,700

The following items make up the total of home charges.†

Items.	1907–08.	1910–11.	1913–14.	Home charges, 1924–25.
	£	£	£	£
Interest ordinary...	1,763	2,272	2,087	......
,, Railways	3,118	3,397	3,706	......
,, Irrigation	108	112	119	......
Total	4,990	5,781	5,913	8,116
Post, Telegraph and Mint	226	191	278	399
General Administration Charges ...	432	403	461	521
Miscellaneous Civil Charges... ...	2,552	2,608	2,668	2,244
Railway‡ Revenue A/c.	4,984	5,343	5,294	8,609
Public Works	68	80	101	18
Mil. Charges	5,006	5,063	5,463	10,096
Dir. Dem. on revenue	116	92	115	88
Famine Relief, etc.	13	19	17	......
Total Home Charges ...	18,487	19,581	20,312	30,091

Another reason which makes the study of the home charges interesting is the connection of that expenditure with the currency organisation of India. From 1873 to 1899 the continuous fall in the gold value of the rupee was most clearly brought home to the Government of India owing to their heavy obligations in gold. The fall of a single penny in the value of a rupee meant an additional charge of one crore of rupees on the Indian expenditure. All throughout that period the Government of India were intensely anxious to minimize their extreme difficulties. Even after the settlement of this question, the disbursements of the Government of India in England have kept up their importance in connection with the regulation of the Indian currency system. In another work, we have examined this connection more fully§.

* The figures are of the gross home charges. For the last 3 years they are for the Central Government only, being the Revised and Budget Estimates respectively for the last two years.

† The figures are in thousands sterling. In 1924–25, the Miscellaneous Civil Charges include Famine Relief.

‡ The Railway revenue account is exclusive of interest charges on capital invested in State Railways, &c.

§ See *Indian Currency, Exchange and Banking* by the present writer.

for his bills ; or in other words, the Government of India had to pay a continually increasing toll to meet the sterling expenditure in England. Thus rose the principal, though not the only, cause of the loss by exchange. The changes in the currency system adopted in 1899, and discussed in another work, resulted in stabilising the value of the rupee allowing for very slight variation on either side of 16*d.* These limits were firmly maintained until the end of 1916. A good deal of financial embarrassment and instability, which was so characteristic of the Indian finance in the last three decades of the nineteenth century, was thus removed. At the present time the sale of Council Bills is necessarily connected with the amount of expenditure incurred in England and chargeable to the revenue of India. The constant growth of the home charges has occasioned much anxiety, not only because it is a very great burden on the Indian revenue and outside the control of the Government of India, but also because so long as this heavy charge is maintained, there would be no possibility of increasing the expenditure of the Government of India on the more necessary items of education or sanitation, or the economic development of the country.

III.—The Drain

The most important problem in connection with the expenditure of the Government of India in England is the question whether the amount of the home charges represents a tribute levied by England from India. Is it an "economic drain"? At first sight it would appear that 30 millions of pounds or so spent every year in England brings no corresponding benefit, and that therefore it represents the amount of the drain from India due to the political connection between England and India. If, however, we examine the question more thoroughly, we find that the trade of India has invariably shown the phenomenon of a steady excess of exports over imports. The excess of exports over imports is not any indication of the economic position of the country concerned. Before we can strike a proper balance of trade in favour of or against any country, we must remember that there are several items which do not figure at first sight in the amounts of exports and imports. Thus, for example, the loans raised by one country abroad until converted into merchandise would not be recorded in the trade returns, as also the annual interest on these loans paid by the debtor country to the creditor country. Similarly, the earnings of native merchants living abroad, and foreign merchants living within, a country, as well as the expenses of foreigners within a country and of its own citizens abroad, must also be included before a correct balance can be struck. The services rendered by ships would also usually escape enumeration in the ordinary trade returns. On the whole, however, it will be true to say that ultimately all these items would be accounted for in one way or another under the trade returns. And we may, therefore, take the excess of exports as a good indication of the extent of the favourable or unfavourable balance of international indebtedness of that country.

On this basis we find the following table summing up all the available factors affecting the argument :—

(The figures are in lakhs)

Year			Excess of Exports from India.	Home charges of the Govt. of India.	Net public Debt Incurred.	Treasure Imported.
1904–05	...	...	53,31	29,20	5,21	22,97
1905–06	...	...	49,73	27,93	25,12	16,18
1906–07	...	...	59,72	28,92	6,25	38,86
1907–08	...	...	40,83	27,72	16,08	36,83
1908–09	...	...	24,35	28,38	8,45	16,42
1909–10	...	...	65,83	28,68	15,61	31,12
1910–11	...	...	76,26	29,37	13,54	32,61
1911–12	...	...	83,94	29,95	2,73	43,09
1912–13	...	...	79,69	30,42	4,35	51,20
1913–14	...	...	57,70	30,46	0,17	36,36
1914–15	...	...	37,24	30,31	4,09	16,52
1915–16	...	...	61,31	30,16	3,57	3,71
1916–17	...	...	87,11	31,72	11,56	32,03
1917–18	...	...	80,55	39,10	1,73,76	44,22
1918–19	...	...	66,76	35,44	11,47	62,36
1919–20	...	...	1,11,06	38,31	8,91	64,56
1920–21	...	...	81,21	46,44	52,34	8,59
1921–22	...	...	21,75	46,23	49,19	12,23
1922–23	...	...	69,86	46,52	25,30	52,21
1923–24	...	...	1,25,96	*44,97	27,65	...
1924–25	...	...	1,55,01	41,27	...	94,27
1925–26	...	...	1,61,24	36,87	...	51,88

Leaving out of account the figures for the war years, as being abnormal, we find the net excess of exports in fifteen years amounting to £296,454,675, while the total of the home charges during the same period was £322,534,786. The total debt incurred in that period in England, allowing for the repayment of debt, was £50,941,551. Deducting the amount borrowed from the figure of the home charges, since the loans raised in England would be equally available for the payment of the home charges, we find the total of the charge payable from the current revenues to be £271,159,323, which, deducted from the total figure of the net excess of exports, leaves about £24,461,440 to be accounted for. Indian publicists take that figure to represent the remittances of the English private gentlemen resident in India and able to show a margin of profit on their annual operations, which they remit to England. It would not be very inaccurate if we take the annual figure by which India is drained to be about £20 millions or 30 crores of rupees. It has been argued that the figure of the net excess of exports is not quite properly taken to show the disadvantage to India, as that figure includes the imports of stores on Government account. These stores are

charged against the revenues and are as such included in the home charges. But as India presumably received an equivalent in the amount of the stores, it ought to be deducted.* This leaves the net drain to be still over £15 millions.

As already observed, Indian public opinion considers this amount to represent the annual tribute exacted from India owing to her political dependence on England, and consequently the measure of the annual impoverishment of this country. The apologists of the present Government have endeavoured to show, by plausible arguments, that the assumed drain either does not exist, or is made up for by the equivalent in goods or services received by India in return. We shall briefly examine below the main contentions on either side.†

(1) The charges paid by way of interest on capital borrowed constitute the most important item of the home charges. These charges, it could be argued before the recent war, consisted of the return, to a large degree, on capital invested in India in productive enterprises like the railways and irrigation works. They must be paid if the resources of India are to be developed, and India is to take her rightful place among the nations of the world in matters of industrial activity. As Indian capital is either inadequate or unwilling to be invested in these projects, foreign capital must be raised for the purpose; and interest on such capital is nothing but a legitimate economic return, which should not be classed as drain from India. India is by no means the only country in this predicament. Besides, the advantages of such borrowed capital are not confined to a development of the national resources; the increased amount of employment, and, consequently, the increased earnings add to the wealth of the people of all classes. Apart from capital borrowed on Government guarantee (which alone figures in the home charges proper) private capital invested in India in such industries as tea or jute perform the same service.‡ The case as it is thus presented

* See on this point the *Wealth and Taxable Capacity of India*, by the present writer and Mr. K. J. Khambatta. The net import of these stores amounted to £ 4·3 million a year, a total of £65·8 million in 15 years :—

Year.	£	Year.	£
1900–01	2,844,779	1908–09	4,931,501
1901–02	4,554,106	1909–10	3,671,797
1902–03	4,300,014	1910–11	2,484,000
1903–04	4,707,602	1911–12	3,558,000
1904–05	5,017,833	1912–13	3,666,000
1905–06	5,941,389	1913–14	5,283,000
1906–07	5,884,470	1914–15	4,278,000
1907–08	4,343,714		
		Total ...	65,830,205

† As Mr. Dadabhai Naoroji's work is a classic representing the Indian point of view on the question of the drain, Sir T. Morrison's '*India in Transition*' is the most compact and consistent scientific work, giving the other side.

‡ Cp. "*India in Transition*" for an analytical study of the net gain to private foreign capital invested in India in industrial or commercial projects, and also the "*Wealth and Taxable Capacity of India*" by Shah and Khambatta.

is strong enough. But we must remember (*a*) that though the item of interest taken as a whole represents the capital invested in this country, not the whole amount has been employed for developmental purpose exclusively. The portion of interest paid on the ordinary debt, and amounting to over £6 or 8 million since the war, is a charge for a wholly unproductive purpose. It represents debt incurred mainly for war expenditure and famine relief, including the heavy legacy of unproductive debt left by the East India Company.* **For the interest paid on this amount, Indian opinion may well maintain that there is no economic equivalent in return.** The establishment of a strong good Government is no doubt a blessing; but one of the duties of a strong Government is to try and reduce these unproductive charges as rapidly as may be. Instead, however, even before the late war, these charges were constantly growing. (*b*) As regards the productive debt, the point may be conceded that there is a measurable economic return, but not the whole charge of interest even in this case represents a proper development of the country. Apart altogether from the rival claims of irrigation and railway works, apart from the long continued wastefulness of the railways in India, which have begun to yield a net profit, after meeting all the charges, only since the beginning of the present century, while before that for half a century they were every year a net loss to the country, we must urge that the terms on which this capital has been raised by the Government were unduly unfavourable to the Government, made still more so by the fixed rate of exchange during 20 years when exchange was steadily going against the Government of India. Moreover, not all the railways have been constructed for purposes of the economic development of the land. The military railways on the frontier, to mention but one example, were for a long time a source of heavy loss; and it was only the recent development of the irrigation works that has rendered them at all profitable. This point is more developed elsewhere.† (*c*) Finally the claim urged on behalf of the Government that its credit has enabled India to borrow on relatively easier terms than would have been the case if India were under indigenous rule, and that this saving ought to be regarded as some compensation even in the most unproductive item, is simply untenable.‡ In a common money-market, such as London was before the last war, every one who borrowed, with

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* See the chapter dealing with the Debt of India, Part IV.

† See the next part of the chapter on Public Works.

‡ Says Sir T. Morrison (Op. Cit.): "England's credit enabled India to borrow money much more cheaply than she could otherwise do, and as a matter of fact India can and does borrow money much more cheaply than Japan, which pays interest from 6 to 8% on internal loans, and 4½% to 5% on foreign loans............India borrows at 3½% per cent. The gain to India from England may therefore be expressed as a reduction of 2½ per cent. in the rate at which she has borrowed capital. An additional 2% on India's total debt of £267,000,000 would represent an additional charge of £5,340,000" Besides the points made in the text to answer this contention, we may here remark that it is somewhat confusing to speak of India's connection with England having benefited the former in the way suggested. India borrows on her own credit. The English Government has never guaranteed the credit of India; and, it may be added, the foremost Anglo-Indian financiers have all along been against the idea of England propping up India's credit. See the financial statement of James Wilson and of Sir. J. Strachey, 1879-80.

a sufficiently good credit, would obtain the same terms. The proverbially uncertain governments of the South American Rebublics were, during the same period, able to borrow at terms not materially different from those offered to India. In fact the Government of India, by creating a precedent of high guarantees at the start, precluded themselves from obtaining better terms in times when money was easier. And as these loans were for a long period, they could not avail themselves of a more permanent decline in the rate of interest as was the case between 1875 and 1895. (*d*) As regards the private capital invested in India by foreigners for the development of new industries like tea or jute, the argument of increased wealth and employment to Indians would be irresistible if the capitalist was restricted to the fixed economic return on his investment.* In India, the opening of new industries by external capital has all along been conditional upon all the best advantages of the new industries being permanently reserved for the foreign entrepreneur. The analysis of a balance-sheet of a typical firm is unreliable in such an argument as the present, as a scrutiny of the balance-sheet does not enable us to determine the amount paid away in salaries to higher officials who are almost exclusively non-Indians, the amounts set apart as reserves, the sums paid as managing commissions, etc. The advantage to the Indians from the creation of the new employment is set off by channels of previous employment blocked by the competition of these new ventures. And the conditions of employment, if we are to judge from the perennial disputes and scandals connected with the tea industry, are scarcely human. We cannot, therefore, accept in this connection the analogy of countries like Japan, or the U. S. A., which also have been obliged to develop their local resources by foreign capital. In these countries the capitalist must content himself with the fixed economic return on his investment, the control, direction and conduct of the enterprise being in the hands of the nationals, and carried on by them under the sovereignty of their states for the country's benefit. Enlightened opinion in India cannot and does not object to the development of our resources by foreign capital if necessary. What it objects to is the perpetual mortgage of the national resources to such foreign capitalists, to the control which they indirectly obtain of the national industrial policy, and to the unreasonable conditions of employment to indigenous labour, which they offer without fear of the interference by the State as guardians of the interests of labour.

We need scarcely labour the same point with regard to the items of civil and military charges. In a self-governing or independent country the phenomenon would be impossible. There is not even a semblance of justification for these charges, which, instead of being progressively reduced, are being perennially increased. On the whole, then, we cannot but object to the expenditure of the Government of India in England on grounds alike of political principles, administrative convenience, and economic utility,

* See the Report of the Foreign Capital Committee of 1925.

and must suggest that immediate, effective steps be taken progressively to reduce the expenditure by discontinuing the recruitment for civil and military services outside India, by adopting energetic measures for the repayment of our unproductive debt and the reduction of all external indebtedness, and by all other such measures as would guarantee the abolition of this charge in time before radical steps for the repudiation of such obligations come to be suggested and adopted.

PART III

Public Revenue of the Government of India

CHAPTER I

General Considerations on the Character of Public Revenues

I.—Nature of Public Revenues

Before considering the revenues of India, we must understand clearly (*a*) the nature of public revenues, (*b*) the principles which should govern these revenues, (*c*) the most equitable methods by which public burdens should be apportioned on the community, (*d*) and the different effects of the various kinds of these revenues. Public revenues in modern civilised states consist mainly of: (A) Income from taxation, directly or indirectly, of the members of the community, exacted in virtue of the sovereign authority of the state, (B) Prices charged for services rendered by the state or the commodities supplied by state enterprises; and rent or other similar receipts from property owned by the state, (C) Fees of all kinds, and departmental receipts from services incidental to the ordinary tasks of administration.

At the outset of a discussion of the public revenues of any state, these general considerations are necessary as much for the clearer and fuller appreciation of the subject as for the great importance of tax revenues in the budgets of all the leading countries.* We may, indeed, be inclined to accept the doctrine of Proudhon that all property is indistinguishable from theft; we may even be induced to accept the socialist position that the interests of simplicity in finances demand the abolition of the private ownership of the instruments of production, as well as of production by private enterprize; so that in a properly constructed state all private incomes would be in the form of official salaries, derived from an all-embracing activity of the state, which should then obtain all the surplus from industrial enterprize that now goes to private persons for their personal advancement.†

* Says Cohn: "For the modern state the tax and the national finances are indissolubly bound together......So long as private property continues to be the fundamental institution in modern society and the basis of industry and public economy, the tax must also necessarily continue to be the foundation and the corner-stone of the public finance." (The "*Science of Finance*" by Gustav Cohn; translation by T. B. Veblen Art. 194, p. 290).

† This surplus will, of course, not be kept by the State, as the present day, private profit-seeking individual does, in the shape of his own profit, but will be returned to the community in the shape of increased wages or reduced prices of the services and commodities that make up what we now call the cost of living.

But even if we be convinced of this position, the existing tax-system must nevertheless be studied, and maintained with improvements, if for no other reason, in order to realise, by this transitional measure of the tax system, the ideals of collectivism. In the following pages the Indian tax system has been analysed and criticised, and improvements and additions have been suggested, according to the maxims and ideals laid down in this chapter.

II.—What is a Tax ?

As the bulk of the public revenues in the leading states is composed of taxes, we shall commence the inquiry by an analysis of the nature of a tax. **What is a tax ?** The definitions collected in the foot-note* seem to give undue prominence to only one kind of tax revenues,—the direct taxes.

The clear perception of the burden by the tax-payer, which would serve to bring out prominently the element of compulsion, is possible only in these taxes; but because the relation of the burden is not so clear in taxes upon commodities or in charges for services, they are none the less real taxes. Again, though it may be conceded that in every case where there is a possibility of obtaining a *quid pro quo* the payment made by the citizen may be rather a price paid for utilities purchased, than a compulsory contribution irrespective of any benefit received, it must be remembered that not in every case of a charge made by the state for a real service rendered has the citizen either the power to correlate the amount paid to the utility or service

* Le Roy-Beaulieu's definition :

" The tax is a contribution exacted from each citizen for his share of the expenses of Government. If this formula seems too modest and too empirical, we might have recourse to the following.—A tax is the price of services which the State renders or has rendered ; represents, besides it, the part which each citizen, according to the principle of national solidarity, ought to bear in the expenditure of all kinds and of every source which press upon the State." (*Traite de la Scienc de Finances*, Vol. 1, p. 151, Edn. 8.)

Definition of Taussig :—

"The essence of a tax, as distinguished from other charges by the Government, is the absence of a direct *quid pro quo* between the tax-payer and the public authority. It follows that a tax is necessarily a compulsory levy." (*Principles of Economics*, Vol. II, Ch. 66, p. 483).

Definition of Prof. Adams :—

" The results of the foregoing analysis, not alone in this chapter but in the previous chapter as well, may be summarised in the four following statements :—

First :—From the point of view of the State, a tax is a source of derivative revenue.

Second :—From the point of view of administration, a tax is a demand for money by the State in conformity with established legal rules.

Third :—From the point of view of the citizen, a tax is a coerced payment.

Fourth :—From the point of view of theory, a tax is a contribution from individual for common benefit."

—(*The Science of Finance* by H. C. Adams.)

Definition of Prof. Bastable :—

" A tax is a compulsory contribution of the wealth of a person or body of persons for the service of the public powers."

The Indian Taxation Committee's Definition :—

" Taxes are compulsory contributions made by the members of a community to the governing body of the same towards the common expenditure without any guarantee of a definite measured service in return,"

obtained, or the option to forego the payment altogether. In almost every case of a public monopoly of any service or utility,—the post office of England, the Railways of Prussia, or the tobacco monopoly of France,—the citizen cannot avoid the payment of these charges, short of discontinuing altogether his consumption of those utilities or services; and as most of these utilities or services are of primary importance, the specious alternative of refraining from consumption, though possible in theory, is unthinkable in practice. An intelligent and sympathetic government does, indeed, always endeavour to adjust its charges for the monopolised utilities or services to their true commercial value; but the retention of the absolute power by the State to enhance these charges at its will, regardless of the true commercial correspondence between the price asked and the utility offered, serves effectively to distinguish these charges from a true commercial valuation. This is apart from the fact that we have no means of knowing whether even the initial charges are really fixed according to the true commercial principles. We do not know if the uniform penny postage in England really represented the true commercial cost of the service rendered. Judging merely from the huge pre-war profits of the English post office, it seems to have been much in excess. But the fact that Parliament could and did alter these charges, for reasons entirely non-commercial, is enough, in our judgment, to distinguish these charges from prices for services charged on purely commercial principles. **A proper definition of taxes would, therefore, include all payments made to the State by individuals or corporations, residing within the jurisdiction of that State, directly or indirectly, under obvious or imperceptible compulsion.*** The existing social structure being founded on private property and private enterprize, these payments will necessarily be derived—and, therefore, a deduction—from private wealth. Such a definition would comprise not only the taxes direct or indirect, commonly so-called, but also the so-called fees, and all other charges in which the individual must make payment; in fact, where there is no real correspondence between the price paid and the utility obtained, no real option to obtain from other sources similar benefits by similar payments.†

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* We have used the terms "individuals or corporations residing within the jurisdiction of that State" in preference to the commonly accepted phrase "citizens", in order to indicate that in modern States many income and property taxes are paid by citizens, as well as foreign subjects resident or domiciled in the State; and of course all consumption taxes by all residents alike.

† The comparatively wide conception of taxes accepted above is, it is needless to say, different from currently adopted orthodox views regarding the nature of a tax. The distinction commonly drawn between taxes, fees, and charges for services rendered by the State is not, in our opinion, always tenable, because:—

(1) The postulate of the sovereign authority of the State is inconsistent with the assumption that, while the taxes are independent of any return for payments, fees and other charges are proportioned to the benefit received. The fact that (*a*) the State can vary these charges for its own needs, and (*b*) that the individual has no real option, makes the so-called fees and other charges indistinguishable from taxes. They are all practically compulsory payments for the support of the State.

(2) There is no separate fund, nor distinct objects, for taxes on the one hand, and fees and commercial charges on the other. They are all paid into one fund and are collectively utilised for the common benefit. Their incidence, or exact degree of pressure, is ultimately determined by the collective necessities of the State, though in normal times

[*Continued on page 199.*

III.—Some Erroneous Ideas concerning the Nature of Taxes

Having cleared our ideas respecting the nature of a tax, we shall next dispose of briefly some common misapprehensions. Proposals for new taxes or suggestions for reform in the existing systems are often questioned on the ground of want of benefit to any ascertainable class of individuals. In the case of all taxes levied by the central Government, at least, the attempt to correlate the tax burdens with benefits received is bound to prove futile. For there is a large class of the community in all countries under our existing social system—the infants, the lunatics, the disabled, and the impoverished—who, by the nature of things, are bound to obtain very great benefits from the State, for which they are themselves unable to make any contribution. If taxes were nothing but payments for definite benefits received, the rich and the strong would have to make little or no contribution, the poor and the infirm would have to bear the entire burden. Moreover, in each payment of tax, the individual making payment is giving a contribution, not only for useful service rendered to him by the State, but also for all the follies and errors of contemporary, or previous statesmen, and the consequent burdens upon the public purse.* So also the idea that the payment of taxes is a sort of premium for insurance against loss of life or property is incompatible with modern notions of public finance. The public expenditure for purposes of public security—for police, jails, and courts of law—forms an insignificant fraction of the total expenditure in most modern States. And even if we interpret the phrase 'public security' more liberally, and include expenditure on the army and navy and military equipment, we shall find the total of such expenditure even in such obviously militarist countries as Germany or India a fraction of the total public expenditure. The doctrine, indeed, which would make tax-payments identical with insurance premia adopts too narrow a view of the functions of the State. However popular it might have been with the generation of J. S. Mill and Herbert Spencer,

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Concluded from page 198.]

there may be an attempt to bring about some correspondence between the service rendered and fees or prices charged.

(3) The entire revenue system of modern States is essentially transitional, if we accept the doctrine that the State must, in the near future, own, condnct and control, on behalf of the community, all means of production, distribution and exchange. Taxation and all proposed radical reform in existing tax systems come to be regarded more and more as excellent weapons for abridging the period of transition.

(4) The distinction between taxes proper, as they are called, and fees and other charges is sometimes sustained on the ground that different principles have to be adopted in levying these various charges. But this ground is fallacions, inasmuch as the difference in principles of levying and assessment exists as clearly between the direct and indirect taxes, personal and property taxes, properly so called, as between taxes and fees, or taxes and charges for monopolised public services.

It must be noted that the conception of the nature of a tax adopted above is not always incompatible with the presence in a given revenue system of forms of income which really are not taxes. The income from the Crown lands and Suez Canal shares in the English budget, the opium revenue in India, the profits of camphor monopoly in Japan are instances to the point. The inability of the individual State to manipulate snch dues exclusively by its own sovereign authority, and the effectiveness of competitive commercial conditions in fixing these charges completely distinguishes them from the tobacco revenue of France and Railway revenne of Prussia.

* See Le Roy Beaulieu, Op. Cit., p. 148.

it is now no longer acceptable. Besides, even accepting the narrow view, the analogy of insurance premia is entirely inapplicable. While the insurance company must replace the article insured on its loss or destruction, or give equivalent, the State does not, except by way of special grace, replace or give equivalent for crops destroyed by flood or enemy invader. If one citizen is robbed by another, the State will pursue and punish the thief; but if he has destroyed or consumed the stolen property, the State will not replace it.

IV.—The Assessment and Apportionment of Taxes

The principles governing the assessment of taxes we shall discuss when dealing with each particular kind of taxes under the Indian Revenue System, since they differ very much according to the various kinds of taxes. The question, therefore, that must here be asked in reference to all taxes is:— what will be their effects upon the country's industry, upon the national wealth as a whole. This cannot be discussed in this general section. But the question of justice in apportioning the burdens of taxation is sufficiently general to be fitly discussed here.

The most celebrated canon of taxation laid down by Adam Smith is:—

> "The subjects of every state ought to contribute to the support of the Government, as nearly as possible, in proportion to their respective abilities."

The meaning of the term abilities, used by Smith, has been differently interpreted by the publicists and statesmen belonging to the divergent schools of proportional taxation and progressive taxation. The former make the distribution of tax burdens on the simple mathematical principle of fixing a standard to indicate ability, and then demanding a given proportion from each individual according to that standard. Whether or not the assumed standard of ability indicates the real ability of the tax-payer, the advocate of proportional taxation is not concerned with. The system of progressive taxation arises from the desire to distribute the tax-burdens so as to bring about an equality of the pressure of taxation, an equality of sacrifice. It is based on the assumption that the utility of income (or wealth) decreases as its quantity increases, and that, consequently, larger incomes, or wealth, should be taxed at a progressively increasing rate. In order to apply the system of progressive taxes with substantial justice in practice, we must have a clear indication of what constitutes ability, and how the differences in that ability are to be measured. A critical examination of the existing tax-system shows that, generally speaking, three distinct indications of ability are accepted by the different countries, *viz*: (*a*) income, (*b*) property, (*c*) expenditure.

V.—Measurement of Ability: Income and Property

Income taxes would apparently be the simplest and probably the most scientific, if all incomes were derived from the same sources, and under the same conditions of certainty, regularity, and continuity, had the same burdens

to support, and were of the same magnitude. The fact that in all systems where the progressive principle is accepted and applied to income taxes, the Government has to elaborate a complicated system of refunds, exemptions, and discriminations, is sometimes urged as an argument to emphasise the impracticability, if not the injustice, of income taxes under a progressive principle. But these difficulties are due, not to the essential injustice or unwisdom of income taxes, but to the inherent vices of the existing system of private property and private enterprize. Under the existing regime it would perhaps be more accurate to regard the income taxes, not so much as the embodiment of scientific financiering, as an attempt, crude and temporary as it may be, to effect the gradual transition from the regime of private enterprize with the least disturbance. No system of direct taxation of income can be worked satisfactorily unless this essentially transitory character and the true ultimate aim of bringing about a redistribution of wealth is realised. Logically speaking, such an attempt ought to result in taxation progressing at a rate, which would absorb all incomes beyond a figure ample enough to cover all normal and legitimate needs of the recipient; while all incomes under a point necessary to support the recipient in a reasonable degree of social comfort and in due efficiency should be entirely exempted from such taxes. The fact that nowhere do we find this logical conclusion realised argues the timidity, self-interest, or even misapprehension of the taxing authority, and not so much the inherent weakness of the suggestion.

The difficulty in the way of a proper working of a true scientific system of income taxes has led to the necessity of finding supplementary taxes. Next to the taxation of income, the best indication of the ability of the taxpayer is his property. Taking land as the oldest and the most important form of property, we find taxes on land and other forms of property as important as they are wide spread and old. But the other forms of property are relatively of recent origin, and therefore their taxation is not so important as that of land. The difficulties of taxing all forms of property are, if anything, greater than that of taxing income. For property is frequently in transition from one individual to another; and there is a great risk of the tax being evaded in the process of transition. Moreover, the property of individuals, unlike income, is seldom concentrated in one place. Its wide dispersion makes its successful taxation by a territorially limited authority extremely difficult. And whether owing to its frequent transfer or to its dispersion, the possibilily of evading the tax is very considerable.

VI.—Consumption as a Measure of Ability

These difficulties in the way of a proper working of the income and property taxes, have preserved the otherwise crude, antiquated, and uneconomic system of taxation on that other indication of wealth, which is shown by an individual's expenditure. Taxes on expenditure consist chiefly of excise and customs duties. As they are, generally speaking, paid along with, and as a part of, the price of the articles of consumption, their burden

is not really perceived by the actual tax-payer. It must, however, be noted that taxes on expenditure are not necessarily or invariably unperceived or indirect taxes. The license duties payable on keeping dogs, cycles, carriages and horses, men-servants, and motor-cars are as direct as any income tax. In the case of the customs and excise taxes, however, it should be illusory to maintain that the taxing authority can always apportion the tax burden according to the ability of the tax-payer. Commodities thus taxed will be necessarily those, which, being of universal consumption, will yield a considerable revenue. But precisely because they are prime necessaries of life, and therefore of universal consumption, the individuals contributing will have to contribute irrespective of their ability. A salt tax, a tea duty, an excise charge must be paid by any one using the article taxed, regardless of the power to pay. It is sometimes urged in favour of these expenditure taxes,* that their essential characteristic is that the faculty on which they are based is not one calculated or estimated by the exchequer, as in the case of income taxes, but one which the tax-payer imputes to himself. But the plea is sound, if at all, in the case of the taxation of luxuries or superfluities. When the article taxed is salt or tea, or a piece of clothing which the poorest individual must have, it is absurd to suggest that the individual gives his own standard of ability. He is, indeed, at liberty to save himself the tax burden by not using the taxed article; but so he is at liberty to eat dog's meat, to sleep in a graveyard, to starve to death. Wherever, therefore, taxation of articles of universal consumption is practised, the rule is attempted to be observed that this kind of taxes should be so framed as not to impair the productive powers of the country. But the two aims of getting the largest income for the State from these taxes, and keeping up unimpaired the productive powers of the country, are often incompatible. The attempts to reconcile them by a system of refunds of excise and customs duties on the articles once taxed being exported, or of exemption of those goods intended to be used as raw materials for manufacture of goods, are not only clumsy in themselves, but often incapable of remedying the harm already done.

VII.—Taxation a Means of Social Reform

Another argument in favour of expenditure taxes, which is sometimes urged, is concerned with the power of the State, by means of these taxes, to discourage harmful consumption. It is on this ground that liquor excise duties in England and India are usually defended. But (1) merely to raise the price of an article will never, by itself, suffice to put a stop to its consumption, however injurious it may be. Not only are there classes which cannot possibly be seriously affected by any increase in these taxes,—and, therefore, the real burden of such taxes will fall with disproportionate weight on the glass of beer as against a bottle of champagne;—but the institution of such duties may often enable the dealers in such articles to levy an additional but concealed tax for their own profit. (2) The large

* See N. G. Pierson: *Principles of Economics*, Vol. II.

annual income, moreover, that some States obtain by means of such taxation exposes the sincerity of statesmen more than ever to suspicion, when they talk of raising these taxes to reduce consumption. They will never raise such taxation to the really prohibitive limit, even supposing the mere increase in price is effective in preventing consumption completely, unless and until there is a radical change in the fundamental principles governing the existing tax system. For the only effective way of preventing such consumption is to prohibit it absolutely, or to monopolise it completely by the State. Finally, (3) there may be legitimate differences of opinion about the real injury done to the consumer by specific articles. Even opium and cocaine are useful medicines. Within limits, the consumption of intoxicating drinks, or tobacco, or tea, may be quite invigorating. Indiscriminate taxation of such articles only ends in unnecessary resentment, occasionally in serious injury, sometimes in flagrant evasion.

Taxes on consumption, therefore, whether considered collectively, or from the particular standpoint of the taxation on injurious consumption, have obvious defects. The specious pretext that they are automatically adjusted to the ability of the tax-payer is impossible to maintain, if we bear in mind the relative values of different incomes. They involve, moreover, a very costly machinery for assessment and collection. The attempts, besides, to distinguish between luxuries and necessaries, to institute an elaborate system of refunds and exemptions, to lay special emphasis on injurious consumption, all confess the radical unsoundness of the system they seek to correct. It is fundamentally indefensible to tax the food and drink, the clothing and communications of the people. It hampers and often misdirects consumption, and generally defeats its own purpose. And yet we cannot altogether dispense with the taxes on expenditure until the entire system of obtaining the public revenue is recast. Taxes on expenditure can only be defended on the ground that they serve to obviate the imperfections of the income and property taxes, and bring about a greater measure of distributive justice in apportioning tax-burdens than any one of them singly can. But as consumption taxes are usually indirect, and, therefore, their effects difficult to trace; as people might conceivably restrict consumption and thereby hamper, misdirect, or curtail production, the intending tax-reformer must seek progressively to reduce and narrow the field of such taxes, and increase proportionately the direct taxes, until, ultimately, the community comes into its own, and dispenses with taxation altogether.

VIII.—Direct and Indirect Taxes

The preceding remarks will also apply to a large extent to the question of direct *vs.* indirect taxation. The conception of directness in taxation is not yet so definitely settled as to render confusion in classification impossible. Le Roy Beaulieu opposes the following *administrative* definition :—

> "The direct taxes bear immediately on persons, their possession or enjoyment of wealth. They are arranged with reference to normal and permanent situation ; they contemplate nominative rules."

"The indirect taxes on the contrary, are realised on the occasion of a fact, of an act, of an exchange; as regards the tax-payers, they do not contemplate nominative rules, regularly and periodically established, or realised."

to the following *scientific* definition :—

"By (means of) direct tax the legislator intends to touch immediately and at first stroke, the true tax-payer in proportion to his property or income; he must therefore eliminate every kind of intermediary between the tax-payer and the exchequer, and seek a rigorous apportionment of the tax to the income or the faculty."

"By the indirect tax the legislator does not think immediately of the tax-payer and does not seek to impose a charge strictly proportional to faculties. The true tax-payer he does not contemplate to attain except by reflection, by rebound, by repercussion; he places intermediaries between the tax-payer and the exchequer, and gives up (any idea of) a strict apportionment of taxes in particular cases, contenting himself with a rough approximate apportionment."*

According to this conception of the difference between direct and indirect taxes the case is overwhelming in favour of the direct taxes. A tax must not, it is true, be judged by itself, but in conjunction with other taxes; but even then the direct taxes have some prominent and considerable advantages. They seem more reasonable and are easy to collect. The temptation to evasion by misdeclaration of income, or false valuation of property, is indeed great; but it can be greatly reduced, if not completely counteracted, by such devices as taxing the income at the source, and valuing estates by expert valuers in the public service. They admit, moreover, of that sharp, easy and effective application of the principle of progression, which is the only means, under existing conditions, of effecting a quiet redistribution of wealth in order to off-set the initial disadvantages of the existing inequalities. The extent, in fact, to which direct taxes have replaced indirect taxes in any country is an unfailing indication of the degree of political advance of that country, abandoning the old, unjust, injurious ideas of class taxation and class privileges, in favour of the modern, equitable ideal of equality in the rights and burdens of citizenship. Besides being more just, direct taxes are more elastic and more productive. A slight increase in the rate will mean a considerable addition to the yield. In the last war the yield from direct taxes increased, as compared to 1913-14, in England by 600%, while the yield from indirect taxes increased by 100%.†

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* Le Roy Beaulieu. "*Science de Finances,*" Vol. I, p. 305, Edn. 8.

† U. K.

U. K.	1913–14.	1914–15.	1915–16.	1916–17.	1917–18.	1918–19.
	In Millions Sterling.					
Customs and Excise	74·	81·57	120·82	127·20	110·03	147·7
Direct Taxes ...	85·95	108·43	169·26	389·31	503·01	634·5

N.B.—Le Roy Beaulieu maintains (Vol. 1 op. cit.) that the yield from direct taxes is less elastic than that from indirect taxes and less productive, and tries to prove his contention by reference to the case of England. The contention is unreliable since

(1) In the period selected the extent and operation of direct taxes was very limited in English Finance;

(2) The changes in the rates were disproportionately different in periods of emergency, like the Crimean War, and hence of course the yield was different;

(3) The increase in the indirect taxes, moreover, may be an indication, not of the increased ability to pay, but of increasing population and increasing consumption, and so an increasing yield:

(4) The financial maxims of the Victorian statesmen in England presupposed a conception of State so utterly passive that it will now be absolutely unacceptable in the most apathetic communities. Comparisons drawn from such a period are, therefore, inapplicable, since the conception of the State necessarily translates itself into the structure of the financial system.

The defects of direct taxes, as we conceive them, have already been mentioned above while discussing the taxation of income and property. But these disadvantages, as already observed, necessarily result from the fundamental evils of private property and vested interest. It is the aim of direct taxation to remedy these evils; but they may in the first years, and until carried out to their logical conclusion, themselves be made responsible for these evils, by those who cannot or will not admit the radical vices of our existing system. Thus, to mention but one instance, it is alleged that the direct taxes do not allow the State to reach all classes of wealth, and that, therefore, they exempt a large class from the tax-burdens. But the persons exempted from the operation of the income and property taxes are precisely those who have little or no wealth which can be taxed. To attempt to bring such persons under the pressure of taxation, in the belief of the necessity of making every individual contribute towards the maintenance of the State by means of indirect taxes on food or drink or clothing or conveniences, is to levy charges on those who cannot support them, and thus to intensify the original injustice.

As against the direct taxes, the indirect taxes have certain disadvantages. They can never be proportioned to the real ability of the tax-payer. The attempts to obviate this defect by seeking to tax luxuries in preference to necessaries, are all generally speaking futile. They are, moreover, bound to be an impediment in the way of industrial development, even when they do not end in a hopeless misdirection or perversion of a community's material resources. As a rule, they cause an artificial distribution of industry, and will naturally favour large scale production to the injury of the small production. The indirect taxes are costly to collect, not only because they require a well-paid, widely spread staff for collection; but much more because of the withdrawal of such a large number of young persons from the more productive enterprise, a loss which entirely escapes attention. In face of these disadvantages, the alleged advantages of indirect taxes—that they are less felt, less unpopular, more voluntarily paid,—can all be easily discounted. Even admitting that they are less felt—it is doubtful if the change in the price of sugar or tea or cigarettes will not be felt and perceived by people of low incomes—that is scarcely an advantage in countries whose governments are based on popular consent. Their unpopularity must be, and can only be accounted for by the intense conservatism of the average individual, who regards all old burdens as good burdens in spite of their obviously detrimental effects; and as these indirect taxes are old standing, they are, of course, less unpopular. The fact of their being paid voluntarily may be doubted, though the allegation that they are paid unconsciouly may pass muster. The attempt to escape payment by altering or reducing consumption may prove ultimately injurious in the interests of national efficiency.*

* The following grouping of the direct and indirect taxes is taken from the well-known authorities :—

[Continued on p. 206

Before, however, we pass on to a specific discussion of each item or group of revenue in India, it would be alike interesting and advantageous to discuss more fully the taxable capacity of the people. The next chapter is devoted to a closer study of that phenomenon.

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Le Roy Beaulieu's Classification.

Direct Taxes

Income tax.
Land tax.
Tax on persons.
Succession duties.
Donation duties.
License duties on carriages, horses, dogs, men-servants etc.
Corporation tax.
Trades and professions tax.

Indirect Taxes

Taxes on commodities and articles of consumption.
Stamps.
Registration dues.

Bastable's Classification of Primary and Secondary Taxes (Op. Cit. p. 280).

Primary Taxes

Taxes on land, on business and capital, on persons and labourers' earnings (combination of these give the general income and property taxes).

Secondary Taxes

Taxes on commodities (excise and customs).
Taxes on communications and transport.
Taxes on commerce and legal transactions.
Taxes on transfer of property.
Succession duties.

CHAPTER II

Taxable Capacity

I.—Definition of Taxable Capacity—A Relative Conception

Economists are now-a-days agreed that taxation would be unfair unless and in so far as it is apportioned to the ability of the tax-payer. The idea is contained in germ in the celebrated canons of taxation enunciated by Adam Smith, but has, since his time, been very much elaborated by his successors, particularly in view of the necessity to determine the maximum amount that could be squeezed out of a country which has been defeated in a great war, and which is required to make good the damage by the war forced on the world, among others, by the defeated country's own war-like preparations. In the most advanced countries, the standard and measure of the ability or taxable capacity, as we now generally describe the notion, is commonly taken as provided admirably by wealth, particularly the recurrent wealth or income measured in money. We are as yet very far from the consummation of that ideal of tax-systems,—held dear by many an economist of the late eighteenth and early nineteenth century,—in which all the sums required for the use of the State would be obtained by a single tax on property or income. Taxes on income and property, though growing in volume and importance with the growth of real democracy, are nevertheless not equal to meet all the requirements of the State. It is, besides, not always safe or just to take the crude figure of a given income or property to represent fully and fairly the ability of the tax-payer. The taxing authority must consider the nature and source of the income, and the security and permanence of the property; it must take into account the factor of the wealth in question being earned or "unearned"; it must make an allowance for the demands upon that income or wealth which have to be satisfied before the tax burden can be justly apportioned. On the other hand, the taxing authority must also consider the size and certainty of the income, remembering that the sacifice of the same amount, or even of the same percentage, falls with unequal weight, and means a vastly different burden on two incomes, one of which is of say £1,000 and the other £10,000 per annum. The larger the income the smaller the sacrifice involved in the same amount, or even the same percentage of the tax deducted. Hence, to make the sacrifice equal as between two citizens of the same state with different incomes, as illustrated, it is necessary to adjust the tax burden so as to increase, not only the amount, but also the rate of the tax according to the increase in the size of the income. It is sometimes argued, against this view of the nature of income taxes, that too sharp a rise in the rate of the tax on the higher incomes might trench upon that surplus or saving, on

which depends most materially the productive success of the community. This argument, however, needs to be discounted in view of the fact that very often a high rate of taxation, instead of affecting savings, really results only in a further stimulation of the enterprise of the tax-payer, who, intent on maintaining his given standard of living, puts forth greater energy than he would have otherwise done, when he is faced with a higher burden of taxation. Hence high taxation is not necessarily and invariably a danger signal for the productive organisation of the community, with special reference to the accumulation of capital in that community.

The real consideration, however, which is often ignored in discussions like these, is the use of the tax receipts made by the state. If the state lays out its receipts in a manner which would add to the resources of the community,—if, in other words, the public expenditure is larger on productive than on wasteful purposes,—the wealth of the community would suffer no substantial impairment by taxation. It will really mean that the state takes from the citizens by one hand in the name of taxation, and returns the same amount in the shape of beneficent expenditure with the other hand.* Where, however, a great proportion of the public expenditure is on objects the reverse of productive, where expenditure has perforce to be so arranged as to ignore the most elementary duties of the state in the matter of promoting the public weal in the community, the burden of taxation would wear quite a different aspect, and the ability of the people to shoulder those burdens would have to be tested on entirely different grounds. Expenditure of the state for the public purposes need not be considered to be productive, only if it results directly in a monetary profit. Anything that tends to improve or add to the intellectual and physical fitness of the citizens for the task before them may be considered as justly within the province of the state's primary duties, and as such deserving of outlay by the state according to its ability. The expenditure, again, which is definitely of a commercial character,—the commercial functions of the modern state are growing apace,—may be considered productive not merely if it results in a definite monetary substance; but if it results in some essential service being rendered to the community, which could not be rendered by the citizens severally each to himself, with the efficiency and cheapness possible for the state. A railway or river-transport service may, or may not, result in a definite surplus of receipts over expenses of all kinds. The outlay on it would be productive and permissible so long as the new service results in a material benefit to the community. The transfer of wealth internally,

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* Says Sir J. Stamp, in his work on '*Wealth and Taxable Capacity*': "I propose to put for your consideration the several reasons why the limit of taxable capacity is not an absolute or fixed figure :—

(1) It depends upon what the taxation is to be used for. (2) It depends on the spirit and national psychology of the people taxed, which may be influenced by patriotism or sentiment. (3) It depends partly on the way the taxation is raised, both as to the methods adopted and the rate at which the increase is laid on. (4) It depends on the distribution of wealth. (5) Its rate of increase is greater than the rate of increase in wealth, and it shrinks more rapidly than wealth diminishes." P. 118.

resulting from the payment of interest by the state to its creditor citizens within the state itself, whether the original capital borrowed was used for reproductive purposes or not, also does not affect the taxable capacity of the community, collectively considered, in the same way as the same interest paid to non-citizens. It is open to argument if the taxable capacity would be unfavourably affected in case the interest is on loans borrowed and used for really productive purposes. If the net addition to the wealth of the country is greater than the amount of the interest paid outside the country, the capacity to bear the burden of taxation would certainly have been increased by this activity, though the meticulous and scrupulous economist will be justified in arguing that the increase would have been still greater had the interest remained in the country, *i.e.* if the original capital had not been borrowed from outsiders. But, apart from this, and assuming that the net result of these operations is an addition of some service in the community, the taxable capacity would not be unfavourably affected even by payments of interest abroad. The matter would, of course, wear a wholly different aspect if the payment were for interest on non-productive loans, or,—worse still,—by way of tributes or indemnities.

II.—Constituents of the Taxable Capacity

Taxable capacity, then, depends, generally speaking, on the wealth of the community, *i.e.* on the surplus of production over consumption. Production, and to a much greater extent, consumption are elastic terms. At a pinch a community's productive energy may be made to create utilities, which, in ordinary times, and with no special spur to intenser exertion, will not be there. On the other hand, consumption, or the cost of living is a notoriously elastic quantity. No one can say how cheaply one can live until one is compelled to try; and what applies to individuals applies with much greater force in this instance to communities. Nevertheless there is, at any given time, a limit below which the standard of living in a community cannot be pushed down without the gravest harm to the productive energy of the community. In the interest of the community as a whole, in the interest of maintaining its level of wealth-creation, modern states insist upon a minimum standard of living which will not be suffered to be lowered; for otherwise the welfare of the entire community would suffer. Production, too, is capable of increase at a pinch; but the increase would not be a true increase if the seeming surplus is merely the result of refusing to provide for the renewal and replacement of worn out tools and equipment. The necessity of the last war had compelled the belligerents and their clients to adopt for years this wholly uneconomic policy, the evil results of which are even now not ended. There is thus at any given time a maximum limit of production, and a minimum requirement for consumption; and between the two lies the margin for taxation.* While taxation, or the totality of recurring

* Mr. Findlay Shirras seems to have grossly misconceived the true nature of the taxable capacity, when he sums it up aphoristically by saying "Briefly, taxable capacity is the limit of squeezability", (p. 132, *Science of Public Finance*). He has utterly ignored the human tenacity of life, bare living, which can be maintained on astonishingly small rations. He has not allowed for the force of patriotism, nor realised the strength of national indignation and consequent resolve not to submit to tax-burdens for foreign benefit.

public revenues, is open to be used for productive and unproductive functions promiscuously, while taxation is and remains a compulsory contribution and deduction from the private wealth of citizens exacted by the sovereign authority of the State, the productive machinery of the community in private hands would need a share of this surplus for the maintenance in due order of the productive organisation,—the provision for repairs, replacement or depreciation if not for new capital. Taxation must, therefore, ordinarily speaking, not trench upon that portion of the margin above-named, which is required for the purpose of replenishment of the productive organisation of the community,—which is called savings in ordinary parlance. Wasteful consumption, luxurious living,—may justly be taken as an index of higher tax-bearing ability, even in normal times for the daily needs of the State. But savings proper, *i.e.*, the portion of production intended for reinvestment in the productive organisation, must not be taxed on pain of the productive machinery getting out of gear.

In this consideration there is one more complication. Taxable capacity would be different according to the system of the distribution of wealth in the community. If all citizens were living on the margin of subsistence, if all incomes were of an equal amount, the total taxable capacity would be different from what it would be if there were incomes of varying dimensions. While in the larger incomes there is possibility of saving, and while those incomes would bear a much greater proportion of taxation than the smaller incomes, the latter would contribute only by means of indirect taxation; and then proportionately much smaller contributions than the former. Says Sir J. Stamp, in his work already quoted:—

> "There will be a different taxable capacity if all incomes are on one level or of an average amount, than if there is a steep graduation in distribution. If there are ten thousand persons at a level of £100 subsistence, and one person with a million £, there would be a larger taxable capacity than, if the same aggregate of 2 millions were equally divided amongst 10,000 persons. This fact follows from the law of diminishing utility, upon which progressive taxation is based."

But the use made by the State of the amounts raised by taxation has much to say in moulding the figure of taxable capacity. If the State were imposing taxes for adding to the productive equipment and ability of the community, the confiscation of the entire savings of the community, of the entire surplus, will be of no harm so far as the general level of welfare in the community is concerned. Savings reinvested in industry or productive equipment would no doubt help to increase the total wealth of the community; but while that reinvestment is made at the instance and initiative, as well as for the benefit, of private individuals, the resultant increase of wealth would fall in unconscionably large proportion to the lot of these individualistic entrepreneurs; the same process in the hands of the State would bring about a much more even and equitable distribution. The community as a whole might be made to benefit by the reduction of the charges of the service or the price of the commodity produced under State enterprise; or that

section of the community which is engaged as workers in the productive organisation thus improved by the action of the State will receive better returns for their labour than would be the case under private enterprise. In either case the initial or apparent harm of taxation trenching upon the productive surplus of wealth,—on savings,—will be counterbalanced by this consequent development of increased wealth production or evener wealth distribution. True, the existence of varying sizes of incomes adds to the taxable capacity, as noticed already; and a consummation like the one here mentioned may run counter to such a possibility. But since the object and purpose of taxation,—promotion of the welfare of the community,—will be better served, there is no reason why the final outcome of this chain of events should be considered to be regrettable. The saving, moreover, from the increased productive enterprise of the State would automatically go to the State, which may distribute it in the form of lower charges or prices, or of higher wages, or half and half of both.

III.—Effect of Taxation on Wealth

The effect of taxation on the wealth of the community collectively thus depends, primarily, on the use made of the proceeds of the taxation. Certainly, taxation can be and is used increasingly by modern European nations as the most potent weapon for bringing about a gradual redistribution of the community's wealth on a more equitable basis, though perhaps this objective is not enunciated as emphatically or unequivocally as may be desirable. In examining this redistribution of wealth, we must consider not merely the size of individual incomes, but also the scope for employing productive effort and the degree of equipment for productive purposes which each citizen acquires. If the tax proceeds have been employed for improving or adding to the educational facilities of the community, and extending these advantages to every citizen as a matter of right, manifestly the productive equipment would be much better; and if a corresponding scope for the employment of productive effort is provided by the State, the level of distribution would be naturally affected very substantially.

IV.—Taxation *vs.* Profits of Public Enterprise

At this stage we may mention an essential difference between taxation and profits of State enterprise. While the former is a compulsory **deduction** from the wealth of private individuals, the latter is an **addition** to that wealth. Consequently, the more the State increases the scope and size of its productive enterprise, the more is it in a position to dispense with this relic of barbarism—taxation. The latter has to observe the nature and limits of the taxable capacity; the former is not only independent of such limitations; it renders them altogether meaningless. The logical conclusion for a policy of steady expansion of the scope of State enterprise in the region of production will be the absolute needlessness of taxation. What the State would need, the State would produce. But the State would be identified with the community far more truly and fully than the class-ridden States of to-day can claim to be,

V.—The Taxable Capacity of India

After these preliminaries and postulates, let us consider briefly the taxable capacity of India. Measured, for convenience, in terms of money, the total annual production of wealth in India to-day is, in round figures something like 2,364 crores of rupees per annum, equal to about 1,600 million pounds sterling.* This gives on an average something like £5 per head per annum. This may be compared with the corresponding per capita incomes, at the same time, of other countries as follows :—The United Kingdom, £50 ; the United States, £72 ; Germany, £30 ; France, £38 ; Italy, £23 ; Australia, £54 ; Canada, £40 ; Japan, £6.†

How far is this wealth equal to meet the most primitive wants of humanity ? Speaking in food values alone, the present writer has found, by calculations and comparisons in another connection* that the cost of nourishing a human being, on the same scale as a prisoner, in India,—that is the lowest scale of comfort consistent with keeping body and soul together,—approximates Rs. 90 per annum, as compared with the gross annual average income of a free man in India of Rs. 74 per head. And that without allowing for the natural and necessary deductions from this gross annual income of an Indian! "The consequence is obvious and unavoidable. The Indian people are underfed. Either one in every three individuals must go hungry; or, —what is much more easy, insidious and injurious,—every one must cut one out of every three meals necessary to him. This inevitably becomes the common practice, and the consequence is the progressive deterioration in physique and energy that renders additional production with a view to make up for the deficit increasingly more and more difficult. The vicious circle is complete. The Indian people are, relatively speaking, debilitated and inefficient because they have not enough food available. They cannot have enough food—they cannot produce sufficient for their requirements on the lowest standards,—because they are lacking in strength and energy."‡

For a proper understanding of the taxable capacity of India, however, we must make allowance for those deductions, which have to be and are deducted before the Indian people can enjoy what they produce. These deductions finally leave the land, and so are lost wholly to the Indian people. They are the home charges of the Government of India averaging Rs. 50 crores per annum ; interest on foreign capital registered and invested in India Rs. 60 crores per annum ; freight and passenger carriage paid to foreign companies Rs. 41·62 crores ; payments on account of banking commissions Rs. 15·00 crores ; profits of foreign business and professional men in India 53·25 crores ; making a total of Rs. 219·88 crores or a per capita deduction of Rs. 7 per annum in round terms.

* Cp. The "*Wealth and Taxable Capacity of India*" by K. T. Shah and K. J. Khambatta.

† Cp. Dr. Stamp's article, Statistical Journal, 1919.

‡ Cp. "The *Wealth and Taxable Capacity of India*" by K. T. Shah and K. J. Khambatta.

CHAPTER III

Classification of the Indian Revenues

The revenues of the Government of India are derived from the following sources :—

Principal Heads of Revenue. (Imperial)	Budget Estimates for 1926–27. Rs.
I.—Customs	46,40,00,000
II.—Taxes on Income ...	16,14,67,000
III.—Salt	6,90,03,000
IV.—Opium	3,80,00,000
V.—Land Revenue ...	39,03,000
VI.—Excise	46,60,000
VII.—Stamps	
A.—Non-judicial ...	8,44,000
B.—Judicial	19,03,000
VIII.—Forest	26,75,000
IX.—Registration	1,64,000
X.—Tributes from Indian States	83,94,000
	73,53,10,000
Irrigation, etc.—	
XIII.—Works for which Capital accounts are kept—Gross Receipts	20,18,000
Deduct—Working Expenses	12,02,000
Net Receipts	8,16,000
XIV.—Works for which no Capital accounts are kept	5,000
Total ...	8,21,000
Posts and Telegraphs—	
XV.—Posts and Telegraphs—	
Indian Postal & Telegraph Department Gross Receipts	10,64,65,000
Deduct—Working Expenses	10,17,50,000
Net Receipts	47,15,000
Indo-European Telegraph Department—	
Gross Receipts	34,04,000
Deduct—Working Expenses	35,67,000
Net Receipts ...	−1,63,000
Total ...	45,52,000
Debt Services—	
XVI.—Interest	3,47,11,000
Civil Administration—	
XVII.—Administration of Justice	5,33,000
XVIII.—Jails and Convict Settlement	4,01,000
XIX.—Police	71,000
XX.—Ports and Pilotage	24,90,000
XXI.—Education ...	1,92,000
XXII.—Medical	1,28,000
XXIII.—Public Health ...	1,45,000
XXIV.—Agriculture ...	15,98,000

Principal Heads of Revenue. (Imperial)	Budget Estimates for 1926–27. Rs.
XXV.—Industries ...	...
XXVI.—Miscellaneous Departments ...	12,27,000
XXVIA.—Receipts of the Indian Stores Department ...	12,00,000
	77,86,000
Currency and Mint—	
XXVII.—Currency	4,04,46,000
XXVIII.—Mint	25,22,000
	4,29,68,000
Civil Works—	
XXX.—Civil Works ...	9,98,000
Miscellaneous—	
XXXIII.—Receipts in aid of Superannuation ...	21,26,000
XXXIV.—Stationery and Printing	10,04,000
XXXV.—Miscellaneous ...	7,97,000
	39,27,000
Military Receipts—	
XXXVI.—Army—	
Effective ...	2,74,06,000
Non-effective ...	25,10,000
	2,99,16,000
XXXVII.—Marine	17,87,000
XXXVIII.—Military Engineer Services ...	1,12,76,000
	4,29,79,000
Provincial Contributions and miscellaneous adjustments between Central and Provincial Governments—	
XXXIX.—Contributions to the Central Government by Provincial Govts. ...	5,45,12,000
XXXIXA.—Miscellaneous adjustments between the Central and Provincial Government	......
Extraordinary Items—	
XL.—Extraordinary Receipts	16,00,000
Railway Revenues as per Railway Budget	35,44,32,000
Total Revenues ...	1,30,42,96,000

I.—Reclassification of Indian Revenues

They may be conveniently divided into the following groups :—

(a) Taxes

(1) **Land Revenue including Irrigation Receipts**:—This must stand as a group by itself, not only because of its importance financially but also because the process of obtaining the revenue from land is connected with most interesting discussions in Indian Finance. Whether land revenue is a tax or an income from public domain, whether it ought to be fixed permanently or temporarily, whether it should be collected from large land-owners or small tenants, whether it should be collected in kind or in cash, are all interesting questions, the solution of which concerns most intimately the national wealth of India. Agriculture being the principal, if not the only, source of living for the people of India, the policy in connection with the Land Revenue is as important to the people as to the Government.

(2) The next group will include public income from Taxation. Adopting for the sake of convenience the common division of tax revenues, we may further sub-divide the group into (*i*) income from direct taxes and (*ii*) that from indirect taxes. The former include all those taxes paid directly by the tax-payer to the Government without any possibility for him to transfer the burden of his taxes to some one else. Under this definition, the income and other assessed taxes and provincial rates would be regarded as direct taxes. Land revenue, which we have classed apart, would furnish another instance of a direct tax. The indirect taxes are, by implication of the foregoing definition, those which permit the original tax-payer to shift his burden ; these in India comprise the salt revenue, and the revenue from excise, customs revenue, stamps and registration receipts.

(b) Profits of Monopolies and Profits of Services

(3) The next head is somewhat peculiar. We include in that group all revenues from **public monopolies**, like forests and opium. At first sight, revenue from the sale of opium appears akin to salt revenue or excise. As a matter of fact a considerable portion of the revenue derived from the consumption of opium within the country is credited in the public accounts under the head of excise. But the general principles of cultivating poppy, of manufacturing opium and selling it, are so peculiar, and the state in India has such a complete control over these processes, that we cannot simply class the entire opium revenue as a branch of excise revenue. Besides, opium revenue is essentially not a tax revenue at all. Between 1857 and 1907 the bulk of that revenue was derived from the auction sales of the opium grown and manufactured as a monopoly by the Government of India ; and though that position has materially altered within the last ten years or more, the main principle of monopoly still endures. So also as regards forests. Forests constitute a magnificent public monopoly, the methods of raising income from which will be discussed in the appropriate place. The

only reason we need add here for grouping the revenues from opium and forests together is the somewhat anomalons character of each of these items, and their resemblance in fact to a monopoly.

(4) The fourth gronp includes income from all **commercial services**: Railways, Irrigation Works and other public works, Post Office and Telegraphs, and the Mint. As regards the last item, the receipts aud charges in connection with it are not very important, except possibly historically. But the receipts, by way of interest on the securities held in the several reserves connected with the currency system of the country, are rapidly assuming an importance which demands an immediate enunciation of some definite policy in regard to them. The receipts in connection with the Post and Telegraphs, though not much in excess of the charges for the same, are capable, as already hinted at, of considerable increase; and we shall suggest still more fully the directions in which a more profitable nse of these departments can be made. All these are classed together, because they are all alike in being income from the pnblic domain or enterprise of the state in India.

(c) Incidental Income

(5) In the next class we may include all the miscellaneous receipts and departmental income, civil and military. We may also add to this the income from tributes which conld not logically be included under any one of our previous catagories. Essentially a political charge, the tributes would, under no conceivable system of classification on an economic or financial basis, lend themselves to an easy grouping. The total income from Tributes is comparatively insignificant.

(6) Our classification has so far left out the important item of *Interest*. The income derived from interest on loans made to Native States, Provincial Governments, or other local governing bodies, amounted in 1926-27 to Rs. 3,47,11,000 without inclnding the cognate income of Rs. 4·04 crores credited under the head of currency. Against this income we must set off the mnch larger figure of interest payable by the Government of India on its numerous financial obligations. As the subject is one not purely of revenue, we have thought it more appropriate to discnss it in one place under the general discussion of the national debt of India.

A fuller discussion of the principles governing each gronp of these revenues and their position in India will supply the scheme of this part of the thesis. To these we shall add two more sections; one dealing with the question of adding to or improving the sources of public revenues in India, and the other summing up the general conclusions arrived at in this and Part II.*

* Perhaps the foregoing classification may seem to give too much prominence to the principle of convenience, and not enough to that of scientific distinction. If we adopt the simple scientific classification of Tax and non-Tax Revenues, the large bulk of the income of the Government of India would appear as Tax Revenue including Land Revenue, Customs, Excise, Salt, Stamps, Registration, Income Tax, the profits from Irrigation and Railways and Posts and Telegraphs surplus. Only departmental receipts, Opium and Forests Revenues, Interest, and possibly Tributes would then be considered as non-tax Revenues. This predominance of tax over non-Tax Revenues may be a reason for felicitation, but for the fact that the truly tax Revenue viz: Land Revenue and Railway profits—under a prevalent misapprehension as to their real nature,—are treated as if they were non-Tax sources of public income.

CHAPTER IV

Land Revenue

I.—General Principles of the Taxation of Land

The principles which govern the levy of revenue from land appear to be different in different countries. India, in her various provinces, seems to possess a variety of systems, which not only do not admit of a similarity with systems of land revenue prevailing elsewhere, but which, even among themselves, show no uniformity of maxims or working. To understand the nature and effects of the Land Revenue systems of India properly, we shall first summarise the general principles, which, experience and economic reasoning show, ought to govern the levy of an income for the State from the land; then trace the development of the general Land Revenue policy of India, and finally offer suggestions on the entire system.*

Taxation of land in one form or another has been practised in every civilised country, since land is the commonest, the most obvious, and the most easily accessible form of national wealth. The excuse for such taxation generally admitted is that the establishment of public security, with the construction of roads and canals, benefits landed property more directly than any other form of property. Land, moreover, in most countries had originally belonged to the community. And though private property in land has since, as generally, been recognised, the proprietor of to-day may yet be considered without injustice as the tenant of the community. We may consider the land tax as in theory to be nothing but the economic rent due by the tenant to the community. The feudal idea of the ultimate ownership of the sovereign seems to countenance this view. The continent of Europe has witnessed more acutely the conflict between the Roman conception of private property in land, and the feudal conception of sovereign rights. But in England the private ownership, for all practical purposes, was very early completed, even though the theory of the English Common Law seems even to-day to recognise the ultimate ownership of all land as being vested in the Sovereign. The alienation of the Royal Domain by the munificence or extravagance of the successive rulers led to such a diminution of the private revenues of the Sovereign as to make him utterly dependent on the supply voted by Parliament. In the countries of the New World and in those recently settled, the right of the State to the virgin

* Land Revenue is now provincialised, and does not figure at all considerably in the above statement. But the general policy affecting the tenure of land as well as its taxation is still under the strict supervision of the Central Government. That and the fact of the incalculable importance of this branch of public revenues to the welfare of an overwhelming proportion of the Indian people, provide sufficient excuse to keep up this chapter in the present edition.

powers of the soil has not thus been alienated. The necessity, however, of properly developing these untried resources has led the Government of the United States, the largest owner of public domain in the whole world, to attract the investment of private capital in land on terms almost too generous. Such an alienation of public domain in favour of the proprietary ownership of private individuals cannot but be regarded as tending to rob posterity for the sake of the present development.

II.—*Methods of Assessment of Land Revenue*

The simplest method of taxing agricultural land would be to levy a uniform tax or rate per unit of cultivation, acre, bigha, or hectare. In countries which are practically new, with large territories of almost virgin capacity, this uniform rate would not prove objectionable or unreasonable. But in countries where all available land has been occupied, where there has been considerable investment of capital in land with a view to more intensive cultivation, uniform taxation would be singularly unjust. In such cases the alternative is frequently adopted of basing the tax on an obvious indication of landed wealth. It is simple, primitive, and therefore unjust in an advanced country with considerable investments of capital in land. The system of demanding a fixed proportion of the yield of the soil in kind is a considerable improvement over the two preceding methods, and is more suitable in the conditions of older countries. But even here, as the basis of taxation would be the gross produce of the land, it is possible that in countries of backward civilization employment of capital in agriculture might be discouraged. For as the expenses of cultivation grow under a system of intensive cultivation, the proportion of the net to the gross produce would fall, and the tax based on the gross produce would thus act injuriously against any one desiring a further investment in land with a view to more intensive cultivation.

The more common and approved method of land taxation is on the **sale value** of land, or the taxation of the **net income** from land. The former would be productive to the State only in those countries where the value of land is very great, and where, therefore, its transfers are frequent. Besides, a tax on sale will prove indirect and may quite conceivably be evaded in the absence of an efficient, universal system of Registration. When combined with other property taxes, like Death Duties, the tax would be more productive. Taxing the net produce from land would be still more productive. For the purpose of taxation, the net income to be made the basis of taxation may be calculated, once for all, to avoid all subsequent changes, to ensure stability in the yield. If the purpose is rather to obtain an increasing revenue for the State, a periodical revision of the income from land would seem to be more advisable. But in any case, the taxation of the net income from land owned by private land-owners must be limited, so as not to interfere with the volume of production from land. The private proprietor would, indeed, be inclined to represent every increase in taxation as likely to interfere with the produce of land, as discouraging the investment

of capital in land. But if the tax is adjusted on what is known as the economic rent of land, or the unearned increment of the landlord, duly ascertained, it would not really interfere with the increased production from land, nor with an increased investment of capital in land.*

As regards the limit of taxation of the economic rent and of the unearned increment, J. S. Mill went as far as to assert that the confiscation by the State of the entire economic rent would not prejudicially affect the interests of the producers or the volume of production from land. True, the landlord class would be hard hit by such a measure; but as the tax falls on the rent only, even if the whole of the rent goes into the pocket of the State, neither the price of the produce, nor the volume of production, could be adversely affected. Only, it must be repeated that the payments made by the tenant to the landlord under the name of rent do not necessarily consist of rent exclusively, and may include a substantial proportion of interest on capital, which, if discouraged, may reduce the produce and affect the price.†

The limitation on the taxation of rent thus pointed out makes the proposal of confiscating the entire rent a measure of doubtful utility in the interests of the community, unless, indeed, the logical conclusion of such reasoning is boldly accepted, and the whole agricultural land of the community is owned and cultivated by the State in the collective interests of the community. The reasons, however, for the growing demand for the nationalisation of land are only partly economic, but largely social. The improvement of land under a system of capitalist farming would necessarily depend on the further investment of capital. But as to who should supply the additional capital occasions frequent disputes between the strong capitalist farmer and his wealthy landlord. Though attempts are made to slove these disputes by a series of Landlord and Tenant Acts, the perennial problem can be definitely solved only by the abolition of the private property in land. But if private property is to be abolished, should the existing owners be compensated for the abolition of their rights, for the capital they may have already invested? That they have already received more than the value of land during their ownership several times over is an argument not likely to appeal to our sense of commercial justice. Hence the difficulty of financing a wholesale purchase of land from the existing owners

* "Land-taxes should never be assessed on any basis other than the real income *i.e.* the full competitive rent. The curve of such a tax should coincide roughly with that of the economic rent. The tax should, at any rate when imposed by the States, be uniform, not as regards the amount, but as regards the percentage it represents of rent...... Two things are absolutely necessary in order to insure the amortisation of land taxes being as exact as possible, neither excessive nor inadequate. One is that all rent be taxed at the same percentage rate, the other is that there be regular revaluation of the taxable rent." (Pierson, "*Principles of Economics*" Vol. II, pp. 486–487.)

† "The land tax is simply what the State reserves for itself as against those to whom it guarantees exclusive rights, not only in the produce of the soil, but in the soil itself. It is a fee for the exclusive possession of the soil, and rests upon the land itself. It passes from one owner to the next, and the purchaser knows what he will have to pay to the community for his exclusive rights. By that amount the land is of less value to him than it otherwise would be; and so the community retains permanent possession of the return from a part of the soil." (Op. Cit. p. 486.)

seems so colossal a task that many a reformer, rather than loose his reputation for sound finance, would prefer a sharp, progressive taxation of rent to a complete nationalisation. *

III.—The Assessment of Land Revenue in British India

The British Government in India has accepted the principle of cash-assessment by contract, the contract being either perpetual, as in the case of Bengal, or for a number of years only, as in the case of Bombay. The revenue is assessed either on individual fields as in the southern provinces, or on the larger estates or entire villages, as in the north. Fluctuations in these cash contractual assessment are to be found rarely in the backward provinces like lower Burma: but the Government of India would not, as a rule, depart willingly from the principle of a fixed cash revenue demand, as they fully realise the advantages of fixity of demand to the State, as well as to the tax-payer. Extension and improvement of agriculture would be impossible in the absence of fixity of demand, while petty, vexatious, official oppression would be immensely multiplied. The one disadvantage of a fixed demand is that it would press heavily upon small men, and in bad years, particularly.† The principle of apportioning demand to the volume of production requires for its just operation that the officials told off for the task be above suspicion as to their ability and honesty. The fixed demand of the Government in the ryotwari tracts is levied on each field, as demarcated by the cadastral records, in the form of revenue rates for different classes of land settled for a term of years. The earliest cash assessments were equivalent to fractional shares of the gross produce; but at the present time, except in Bombay, where the assessment is not fixed in the terms of produce at all, the land revenue throughout India is fixed so as to represent a share not of the gross, but of the "net produce", or "net assets" as they are called in the zamindari provinces. The meaning of this phrase "net produce" or "net assets" varies in the different provinces of India. In Northern

* The Report of the Indian Taxation Enquiry Committeee has, in Ch. IV, para 50, some very interesting description of the systems of land-taxation in European countries. Para 51 contains a critical summary of the several systems considered. Both would well repay a perusal.

† The Report of the Indian Taxation Inquiry Committee summarises as follows the main principles of land revenue settlement now obtaining in India. (Para. 77, Ch. II.) :—

> "It will be observed from the above description of the systems of assessment in the different provinces that, except in Baluchistan, the land revenue has ceased to represent a portion of the gross produce. There are three distinct methods by which the assessment is calculated. In the United Provinces, the Punjab, and the Central Provinces, the Government demand is theoretically based on the economic rent, but actually takes many other factors into consideration..........
>
> In the case of Madras and Burma, the assessment is based on the net produce, *i.e.*, the gross produce *minus* the cost of cultivation. In Madras the cost of cultivation is calculated on the assumption that all labour is hired and includes an alowance for the labour of the cultivator and his family. In Burma no allowance is made for this item..........
>
> In Bombay the rate of assessment is arrived at empirically with reference to the general economic considerations, and in practice is based on the actual rents paid rather than on any theoretical calculation of the net produce."

and Central Provinces it represents "rent" wherever rent is paid, or that portion of the gross produce which would, if the land were rented, be taken by the landlord. In Madras and Lower Burma, on the other hand, where Government deals as a rule direct with the cultivator, the "net produce" is the difference between the assumed value of the gross produce and the expenses, estimated on a liberal basis of raising and disposing of the produce. Speaking generally, the "net assets" represent a larger share of the produce in Burma and Madras, where no middleman intervenes between the peasant and the Government, than they do in Northern India. There is no hard and fast rule as to the proportion of the "net produce" which should be taken as land revenue; but for India as a whole it may be said that the average share of the net produce taken by the Government is about one half. Apart, however, from the fact that the net produce is usually calculated on very modest lines, the share actually taken may often be below, rather than above, the average.* The general principle throughout the country is that revenue should be based on facts or calculations representing not the gross but the net production of land to the cultivator; and it is in the correct estimate of this "net produce" that the crucial feature of the assessment from a statistical stand-point lies. It will be observed that one of the three common basis for the assessment of land revenue is: sale value, its rent value, and the value of its net produce; the Government of India seem to combine the second and the third.

IV.—The Ownership of Agricultural Land in India

We have described in the first chapter the origin and early development of the land revenue systems in Bengal, Madras, Bombay and the United Provinces of Agra and Oudh. Though in three of these four there has been more than one subsequent revision, the general principles adopted at first have remained practically unaltered. After the transfer of the Government of India from the East India Company to the British Crown, the new systems introduced were those of the Punjab (1863); of Oudh, and of the Central Provinces (1860-70); of Assam (1874), and of Burma (1890-94). *In the first* settlements, or revisions of old settlements, made during the period now under review, the most absorbing topic of discussion was the question of **ownership in the land.** In the case of the Punjab, when the first hurried settlement was in progress, many landlords had omitted to register themselves

*"The Government demand should be limited to 50 per cent. of the value of the net produce after a liberal deduction for cultivation expenses has been made, and should not ordinarily exceed one-fifth of the gross produce, even in those parts of the country, where, in theory, one half of the net is assumed to approximate to one-third of the gross produce." [See Memorial to the Secretary of State, dated December 20, 1900, by Puckle, &c.] Mr. R. C. Dutt had signed this Memorial, but personally he was in favour of 1/5 of the gross produce as the maximum of state demand. The Government of Lord Curzon, replying to this Memorial in the famous land revenue resolution of 1902, observe that they "believe it to be an entirely erroneous idea that it is either possible or equitable to fix the demand of the State at a definite share of the gross produce of land," and they added :—"Nothing indeed, can be more clear that while the net produce rule itself calls for, and is habitually subject to, modifications in the interests of the cultivators, the gross produce standard recommended by the memorialists would lead to an increase of assessment all round." (Para 17 of the Land Revenue Resolution of 1902.)

for obvious reasons; and these, when the settlement came up for revision, demanded to be recognised as sole owners. To register them as complete owners would have meant the irretrievable degradation of the people first registered as principal tenants. Hence arose the question as to the real ownership in land in India. The Indian Taxation Enquiry Committee have, after mature consideration, declared:—

> "On these two points the committee are unanimously of opinion that, under both Hindu and Muhammadan rules, the State never claimed the absolute or exclusive ownership of the land, and definitely recognised the existence of private property in it." (Para. 80.)

If we accept the writings of the late Mr. R. C. Dutt as indicative of the Indian public opinion in the last century on this point, it would seem that there was a large consensus of opinion among the Indian publicists in favour of extending the permanent settlement of Bengal to other provinces with a view to create exclusive property in land under landlords of the English type. But the right of possession of the cultivator and his right to dispose of the land by sale or will, subject of course to the condition that the alienee shall faithfully discharge the obligations in connection with that land, is equally well established, and can scarcely be regarded as identical with the position of a leaseholder, or a permanent tenant. The balance of reasoning seems to be in favour of regarding the possession of the Indian cultivator as a kind of conditional ownership, conditional upon the payment of the dues of State. The first Secretaries of State, like the early officers of the Government of India, tried to evolve, from the conditions they met with, a landlord class on the English model, being themselves actuated imperceptibly and unconsciously by their own class sympathies.* Sir Charles Wood, in the despatch of July 9, 1862, approved of the principle of permanent settlement for the whole of British India in these terms:

> "After the most careful review of all these considerations, Her Majesty's Government are of opinion that the advantages which may reasonably be expected to accrue, not only to those immediately connected with land but to the community generally,—are sufficiently great to justify them in incurring some prospective loss of land revenue in order to attain them; **and that a settlement in perpetuity in all districts in which the conditions absolutely required as preliminary to such measure are, or may hereafter be, fulfilled, is a measure dictated by sound policy and calculated to develop the resources of India."**

But outside Bengal, the system of capitalist farming on the English model seemed to be out of the question. In provinces where much of the land was uncultivated and population sparse, with the means of communications still primitive and the resources still untried, the introduction of a system of permanent settlement of revenue would result not only in the negation

* "I recommend a permanent settlement, because I am persuaded that however much the country has of late years improved its resources, it will be still more rapidly developed by the limitation of the Government demand." (Minute of J. Lawrence, July 5, 1862).

of the right of the State to participate in future increments, but would directly promote inequalities in the distribution of wealth.*

On March 24, 1865, replying to the proposals of the Viceroy for a general introduction of permanent settlement in Northern India, the Secretary of State assented to the proposal as regards districts which were fairly settled and fully cultivated. But he refused to make the settlement permanent in districts which were agriculturally backward; in all other cases where the cultivation included 80 per cent. of the culturable area, the permanent settlement was accepted. A reservation was afterwards introduced by his successor (17th March 1866) as regards estates whose value might be increased by irrigation.†

V. Land Revenue—A Tax or Rent?

The question as to whether the Government revenue from land in India is a tax or a rent-payment may also be disposed of briefly at this stage. Says Mr. Batstable in his standard work on public finance:—

> "They differ most markedly from the rent, either customary or competitive, of a modern land owner, and more nearly resemble the dues of the feudal lord. They are just as distinct from the ordinary tax and are not governed by canons to which it ought to conform; at the utmost they might be assimilated to taxes on special advantages or monopolies, of which class the possession of land is one example. Where the State dues are frequently revised in accordance with the movements of land values, the approximation to rent is very close; where they are changed in order to suit the means of the State, they are practically taxation; where, as is most common, they are fixed for long periods or in perpetuity, they are really charges that may be capitalised at the market rate of interest."

We have observed elsewhere in this chapter, on the authority of the Indian Taxation Enquiry Committee, that neither the Hindu nor the Muhammadan rulers of India ever claimed absolute or exclusive proprietorship of the land in India; but that on the contrary they fully recognised the property of the cultivator in the land he cultivated (para 80–83). Where there is no right of proprictorship, there can be no possibility of rent. And

* The following extracts from the minutes or despatches of the officers of the Government of India and of the Government of India make interesting reading as to the opinion of the earlier authorities on this question of settlement. "We do not exist as a government really to get the largest revenue we can out of the country, or even to keep the mass of the country in a uniform dead level, though it should be a tolerably contented and a happy one, as a peasant tenantry under a paternal Government. If we give a permanent settlement.........we lay foundations of a state of society, not perhaps so easily managed, but far more varied and richer in the elements of civilisation and progress. Nor do I see any reason to fear the effects on revenue. It may be true that we shall not get so much revenue as if he had kept the increase of rent in our own hands, at any rate for the next 20 or 30 years when it is sure to be rapidly increasing. But I have no fear of our being able to get revenue enough, provided certain conditions are observed in regard to our land settlement; and I am by no means sure that it is desirable for a Government to appropriate a large share of the income of the country or get money more easily than is really essential to meet the proper objects of Government." (Minute of Mr. Samuel Lang, Finance Minister, dated April 7, 1862.)

† "A rule might be laid down that no permanent settlement should be concluded for any estate the assets of which would, when canal irrigation shall have been carried to the full extent at present contemplated, exceed, in the opinion of the officers of the settlement and irrigation departments, the existing assets in a proportion exceeding 20%. (Despatch of March 17, 1866.)

yet, this same body of eminent investigators is unable to agree whether the land revenue in India is of the nature of a tax or of a rent-charge! * (Cp. para. 84 of the Report.)

As regards the term of settlement, *i.e.* the period during which the revenue demand of the State once fixed must be maintained unaltered, the period varies from 20 to 30 years. Apart from the old demand by Mr. R. C. Dutt and his friends for a perpetual and unalterable settlement, the consensus of Indian opinion inclines to the view that the term must be fixed in all provinces with revisable settlements at 50 years. The Government attitude in this regard may be gathered from the following:—

> "Where the land is fully cultivated, rents fair, and agricultural production not liable to violent oscillations, it is sufficient if the demands of the Government are readjusted once in 30 years, *i.e.* once in the life-time of each generation. Where the opposite conditions prevail, where there is much less land, low rents and fluctuating cultivation, or again where there is a rapid development of resources owing to the construction of roads, railways and canals, to an increase of population, or to a rise in prices, the postponement of resettlement to so long a period is both injurious to the people, who are unequal to the strain of a sharp enhancement, and to the general tax-payer, who is temporarily deprived of additional revenue to which he has a legitimate claim." (Land Revenne Resolution of the Government of India, 1902).

This, however, is an expression of opinion nearly a generation old; and with the increasing importance of the Indian element in the local legislatures, it is not unlikely that the matter, on reconsideration, would be settled in accordance with the Indian aspirations in that behalf.

As regards the **enhancement of the Government demand** on each resettlement, the true economic conditions justifying such an increase would be a rise in value of the produce due to the general development of the community. Speaking only for the small proprietors for the moment, it would be but fair to leave them to enjoy any increment which is the direct result of their own economy, either by capital investment, or by other improvements increasing the produce of the land, or by decreasing the expenses of cultivation. The increase in the value of produce permitting an enhancement of the Government demand would, therefore, be only such as is due to the increase of population, or to the construction of roads, railways and irrigation works. In the next term after each revision of settlement, any increase in the yield is left to be enjoyed by the cultivator, even though it be the result of further construction of works of public utility by the state, which were not in existence at the time of the resettlement. Under the conditions under which the average Indian cultivator has to work, however, it would rarely be possible for him to effect improvements by his own initiative such as would materially raise the yield from his holding, without fastening on him the incommensurate incubus of the money-lender. The theoretical truth of the

* One would have thonght the latter was a mere deductiou from the former. It is, however, unnecessary to labonr this point at any greater length, for in the years that are now passing, the entire question is bound to be considered and settled by the Indian Legislatures; and pending that settlement, it would be as well to reserve judgment.

official contention that, "the concession to the landlord or the tenant of a complete monopoly of the profits of all improvements of the soil in perpetuity, whether created by himself or not, would be a doctrine, not merely economically unsound, but without any foundation in the native custom, or any precedent in history," may be conceded.* But in practice the small cultivator finds it hard to make both ends meet whenever the revenue demands are enhanced, for some years following. That is why the Government of India themselves urged, and the Secretary of State accepted, in 1865, the proposal to enhance the public demand on no other ground except a general rise of prices of agricultural produce. That is why the resolution on land revenue policy, issued by the Government of India in 1902 under Lord Curzon, desired to "lay stress on the principle of gradual and progressive enhancement of sudden increase of other than moderate dimensions." In a subsequent resolution, dated March 25, 1905,† they further extended the principle by elaborating the general maxims of suspension or total remission of the land revenue demand in times of stress. The axiom, adopted by Lord Ripon's Government in 1882, and endorsed by the Famine Commission of 1901-02, was reiterated: "Relief will not ordinarily be required when there is half a normal crop," on the general ground that while it would be wholesome to expect the cultivator to take the bad with the good in years of ordinary fluctuation, it would be hopeless to expect him to meet the fixed demand in years when the crops barely suffice to afford him sustenance. Payment of Government demand should therefore be not enforced under conditions which would compel a cultivator of average prudence to imperil his future solvency in order to meet it. As for the complete remission of the revenue demand, the general principle is that where the harvest was one-fourth of the normal, no collection should be made, and that no suspended revenue should be collected until after one good harvest had been reaped in the affected areas.

VI.—Land Revenue Statistics

Year.	Gross Land Revenue of India in Rs.	Cost of Collection.	Year.	Gross Land Revenue† of India in Rs.	Cost of Collection.	Revenue due to Irrigation.
1860-61 ...	21,01,67,420	2,20,92,510	1911-12 ...	31,14,70,456	5,67,96,814	2,02,71,977
1870-71 ...	20,62,28,230	2,42,28,569	1912-13 ...	31,92,37,020	5,80,20,435	2,30,73,667
1880-81 ...	21,91,03,140	2,98,36,790	1913-14 ...	32,08,73,629	5,97,96,330	2,52,65,614
1890-91 ...	24,04,52,090	3,67,65,960	1914-15 ...	31,83,23,088	5,87,10,270	2,50,17,962
1900-01 ...	26,25,45,465	4,22,33,985	1915-16 ...	33,04,67,411	5,85,55,702	2,66,05,805
1901-02 ...	27,43,20,270	4,29,26,025	1916-17 ...	33,06,18,876	5,71,96,993	2,74,06,628
1902-03 ...	27,65,52,675	4,36,42,200	1917-18 ...	32,41,08,686	5,67,34,131	2,65,33,426
1903-04 ...	28,85,15,820	4,57,33,260	1918-19 ...	31,63,49,164	6,15,64,987	2,85,67,154
1904-05 ...	28,43,09,955	4,80,46,110	1919-20 ...	33,91,49,146	6,44,62,259	2,91,77,939
1905-06 ...	28,29,32,535	5,00,38,650	1920-21 ...	31,97,48,469	8,10,34,088	2,85,63,861
1906-07 ...	29,74,74,795	5,10,84,375	1921-22 ...	34,72,17,273	5,91,91,035	3,49,71,019
1907-08 ...	28,07,89,820	5,25,20,100	1922-23 ...	35,35,16,327	5,92,90,432	3,61,79,533
1908-09 ...	29,63,85,900	5,48,08,980	1923-24 ...	34,89,58,777	5,18,02,023	4,16,25,044
1909-10 ...	31,99,82,115	5,47,51,185	1924-25 ...	35,83,58,138	3,84,44,152	4,35,03,345
1910-11 ...	31,31,92,815	5,49,36,390	...	...	...	...

* Land Revenue Resolution 1902, para 12.

† The Land Revenue figures in column 1, since 1911-12, are after excluding the figures due to Irrigation.

Details of Land Revenue and Charges 1924-25

Revenue	Rs.	Charges	Rs.
Ordinary Land Revenue ...	35,53,74,920	Administration ...	37,68,074
Sale of Government Estates ...	12,99,168	Survey and Settlement	84,98,436
Sale Proceeds of Waste Land & Redemption of Land Revenue	54,99,405	Land Records ...	1,78,41,569
Assessment of Alienated Lands less Quit-Rents	97,58,610	Collection of Revenue	53,30,506
Recovery of Survey and Settlement Charges	19,12,351	Encumbered Estates ...	2,524
Capitation Tax	1,05,15,135	Assignments and Compensation	27,19,916
Rates and Cesses on Land ...	17,91,739	Works	776
Fisheries	1,78,31,100	Charges in England (at £1=Rs. 10.) ...	2,07,954
Miscellaneous L. R.	2,92,332	Exchange	74,997
Deduct portion of Land Revenue due to Irrigation ...	4,24,03,345		
Deduct Refunds	23,12,277		
Total Revenue ...	35,83,58,138	Total Charges ...	3,84,44,152

VII.—Criticism and Suggestions

We may now summarise a few of the criticisms against the Indian land revenue policy in general. The late Mr. R. C. Dutt was a persistent and convinced critic of the Temporary Settlements, believing the Permanent Settlement of Bengal to be the ideal for ensuring the happiness of the agricultural classes in general. To him the intensity and frequency of the famines at the end of the last century were inseparably connected with the Temporary Settlements. Under the Permanent Settlement the land may receive back a part of what it yields. But the investment of additional capital in land is conditional upon not merely the expectation of proportionate return, but also upon the degree of interest taken by the cultivator in his holding. Where, however, the two rôles of landlord and cultivator are separate, where the capitalist has no interest in cultivation beyond getting a fixed rent, the evils of absenteeism, of management of estates by rapacious and unsympathetic agents, unhappy relations between landlords and tenants, multiplication of intermediaries, are all bound to crop up. The security of the tenant in such cases cannot be left to the landlord. Series of land tenure legislation, inevitable as they would be, would result in deepening class antagonism.* But neither the Government of India nor its critics seem to emphasise what in our opinion is the chief offence of the Permanent Settlement of Bengal. Anxious to secure an element of certainty so sadly lacking in their budgets, the Government of Lord Cornwallis was led to surrender all the right of sovereignty in land to the zamindar; and the present government has to maintain the class in order not to alienate the sympathies of such an important section. And because the landed class in Bengal is lightly taxed to-day, though heavy on the standards of 1793, the rest of India has to bear pro-

* "The Government of India," says Lord Curzon's Land Revenue Resolution of January 16, 1902, "cannot conscientiously endorse the proposition, that in the interest of the cultivator, that system of agrarian tenure should be held up as model, which is not supported by the experience of any civilised country, which is not justified by the single great experiment that has been made in India, and which was found in the latter case to place the tenant so unreservedly at the mercy of the landlord, that the State has been compelled to employ for his protection a more stringent measure of legislation than has been found necessary in the temporary settled areas."

portionately a much heavier burden, all the more unjust since there is no corresponding ability to bear the larger burden. Excluding irrigation receipts credited to land revenue, the table given in the footnote* below shows the receipts in the different provinces in 1924-25.

The perception of a growing loss to the State from the Permanent Settlement, combined with the depression of the rupee after 1870, led to a change of opinion, which ultimately culminated in the final rejection of the proposals for a Permanent Settlement in other provinces. (Despatch of March 28, 1883). Except, therefore, in the provinces which were settled in the early years of the last century, the Land Revenue Settlements of British India are on a temporary basis, admitting of a periodical revision and enhancement of the State demand when desirable. A glance at the table showing the growth of the land revenue and charges would suffice to indicate the progress of this great source of public revenue in the last 70 years or so, being practically doubled.

The existence of the Permanent Settlement in some parts gives rise to inequalities, which are all the more objectionable as the burden of the land revenue seems to have nothing to do with the fairness in distribution. The mere fact that a share of the produce of land has been a customary, ancient source of public income in India will not, by itself, justify this inequality. Any radical reform in the tax system of India must commence with the rearrangement of the land revenue policy, and must be based upon the principle that, as in the case of the income tax, an abatement must be granted to all those owner-cultivators whose total net produce from the soil, after paying all the expenses of cultivation, does not exceed, say, Rs. 1,000 per annum. A system of taxation in which the State takes nearly ½ of the net income of some agriculturists, though their average individual income may be miserably small, leaving the greater number of agricultural incomes with an average much larger than in the former case, free from taxation but for a perpetually fixed and disproportionally small charge, cannot possibly be defended. If the Indian Government regrade their land revenue legislation on this proper principle, they may have to abandon a considerable proportion of their present revenue under this head; but the loss need not be absolute. What they lose in the remissions granted to the small cultivator of Bombay, Madras, Burma and the Central Provinces, they might make up by increased taxation of incomes of the landlords from land in the United Provinces, Bengal, Bihar and Orissa, and the Punjab. The problem of redistribution

* Land Revenue in the several Provinces in 1924-25.

Provinces.	Gross Revenue.
India including Baluchistan and N. W. F. Province	37,80,748
Madras	6,15,05,867
Bombay	5,16,52,815
Bengal	3,10,73,587
United Provinces ...	6,71,08,534

Provinces.	Gross Revenue.
Punjab	3,53,68,120
Burma including Shan States	5,76,68,680
Bihar and Orissa ...	1,67,57,[illegible]75
C. P. and Berar ...	2,25,72,027
Assam	1,05,13,655
Total Provincial ...	35,45,77,390
Total Central and Provincial	35,83,58,138

among the provinces will no doubt cause internal jealousies; but it is to be hoped that in the interests of equality in taxation and justice, the new consciousness of national solidarity will minimise the force of these jealousies, and allow the redistribution to be effected by reducing the provincial contributions from the provinces affected in proportion.

The problems connected with the land revenue do not stop here. The modern civilised State cannot consider its duty accomplished merely by bringing about a greater degree of distributive justice in its tax-burdens. It must make it its first concern that the wealth of the people increases. The agricultural wealth of India cannot increase, so long as the Indian cultivator is tilling small, unprofitable holdings, with the perpetual risk of their being still further reduced. Legislation must simultaneously be undertaken to reduce the *morcellement* of the agricultural land in India, by some system of pre-emption, or some other guarantee against sub-division of land of an uneconomic kind, concomitantly with a definite scheme of consolidation of agricultural holdings. Perhaps the best method to accomplish a standard economic holding would be to consider the entire land of a village as belonging to the village, and permit its cultivation and enjoyment to the village collectively. At the same time steps must be taken to reduce agricultural indebtedness, which has not been appreciably affected by the co-operative banks after twenty years of steady encouragement. The agriculturists' debts of more than thirty years' standing must be taken as cancelled, and no court must entertain any suit on such claims, even if the debtor should himself admit these debts. In the case of more recent debts, unless registered and admitting a specified rate of interest at the maximum, no court should be allowed to enforce such claims againt agriculturists. To accomplish a total, wholesale redistribution of land, and to destroy agrarian indebtedness, the Governments concerned may have to borrow large sums, and enter into complicated financial operations; but the consciousness of social injustice in the existing dispensation will help to simplify a problem, which would otherwise run the risk of being shelved *sine die* on the pretext of insufficiency of funds.

VIII.—Note on the Indian Land Revenue Policy and the Findings of the Taxation Inquiry Committee

The report of the Indian Taxation Inquiry Committee thus summarises their findings and recommendations on the Indian Land Revenue systems in general :—

> "From a survey of the systems of land taxation in other countries, it would appear that the tendencies of modern development are as follows :—
>
> (1) The flat rate of tax on annual or capital value is kept comparatively low. (2) Incomes from and properties in land are treated for purposes of income tax and death duties on exactly the same footing as other incomes and property. (3) Where an increasing share has been taken of the return from land, it has generally been taken for local purposes.
>
> The Indian systems are the result of a gradual process of evolution from indigenous practice, and they have been moulded into their present shape by British officers, quite independently of one another to suit local circumstances in different provinces,

Except in British Baluchistan, the land revenue has ceased to represent a portion of the gross produce. In the United Provinces, the Punjab, and the Central Provinces, the Government demand is theoretically based on the economic rent, but actually takes many other factors into consideration. In the case of Madras and Burma the assessment is theoretically based on the net produce, while in Bombay the rate of assessment is arrived at empirically with reference to general economic considerations, and in practice is based rather on the actual rents paid than on any theoretical calculations of the net produce.

The Committee are divided in opinion as to whether or not the land revenue should be regarded as a tax on the individual who pays it, but they are agreed that, since it forms a deduction from the national dividend, it should be taken into consideration in dealing with the question of the incidence of taxation on the country as a whole.

Application of the canons of taxation to the land revenue—

(*i*) Certainty,—This canon is satisfied.

(*ii*) Convenience.—Convenience has in some respects been sacrificed to certainty. The inelasticity of the systems drives a number of people to the money-lender during bad seasons. The system of making settlements that last for a generation may necessitate a change in the standard of living when the period comes to a close. When the process of settlement continues for years and involves meticulous enquiry by a large staff, the inconvenience and expense to the ryots concerned are very considerable.

(*iii*) Economy.—the application of this canon cannot be decided on considerations relating to land revenue alone. If the assessment and collection of land revenue were the only matter in issue, it would be practicable to devise a scheme under which the present revenue could be collected at a much smaller cost. The justification of the high cost of the settlement and collectorate establishments must be looked for in directions that are outside the scope of the Committee's terms of reference.

(*iv*) Ability.—Land revenue is essentially a tax on things and not on persons, and as such it is not a tax to which the doctrine of progression can be applied. The Committee therefore confine their attention to the question of the burden of the land revenue on land, in other words the proportion which the Government demands bears to the economic rental or net profits in the different provinces. Even in this respect they are unable to discover any acceptable basis of comparison, and are forced to the conclusion that the uncertainty both as to the basis of the assessment and the rate is one of the chief respects in which the systems are open to criticism.

The results following from the fact that the land revenue viewed as a scheme of taxation is not only not progressive, but actually tends in the opposite direction, are aggravated by the conspicuous absence of provision for an income tax on agricultural incomes or a death duty, which serve in the more advanced European countries and Japan to introduce an element of progression into the taxation of land.

Of the alternatives suggested, the proposals for the redemption of the land revenue either in part or in whole, or for the substitution for it of a tax on produce are impracticable for reasons given. The adoption of a tax on capital value on Australian lines is less so, but would involve changes of a more radical nature than is necessary.

The essentials of a new scheme of temporary settlements are : that it should be definite as regards both the basis and the pitch of assessment ; that it should be as simple and cheap as possible ; that it should so far as possible ease or steady

the burden on the smallest cultivator; and, finally, that it should, in common with the rest of the system of taxation, involve some element of progression in the case of the larger owners.

The Committee recommend that these essentials should be secured by providing that for the future the basis of the settlement should be annual value, *i.e.* the gross produce less cost of production, including the value of the labour actually expended by the farmer and his family on the holding, and the return for enterprise. The functions of the settlement officer should be limited to the ascertainment of this value on a uniform basis. A uniform rate fixed for a whole province should then be applied to these valuations as they were made on districts falling in for resettlement.

In the case of controlled rents, where the rent is fixed by the settlement officer, or is limited by law or by custom having the force of law, such rent should be taken to be the annual value.

Where the practice of levying *Nazaranas* exists, their annual equivalent spread over the term of the lease should be added to the rent for the purpose of determining the annual value.

The rate of assessment should be standardised at a comparatively low figure, not exceeding 25 per cent. of the annual value.

The reduction in the share borne by the land revenue to the total taxation should be accompanied by an increase in the local rate, the maximum for the ordinary rates being fixed at about 25 per cent. of the sum taken as land revenue.

It is not possible, in the case of a tax *in rem*, to relieve the poorest cultivator by an exemption. The relief of his difficulties is to be found in a better system of rural economy generally.

The obvious ways of introducing an element of progression in the case of the large holder are through an income tax on agricultural incomes, or through something in the nature of a succession duty, or both."

As no action has yet (upto the moment these pages are going through the press) been taken on the Report, it is impossible to say anything about the fate of these recommendations. It is not altogether the fault of the Committee that their recommendations leave something to be desired in the matter of constructiveness as well as comprehensiveness. Their reference was so restricted that the recommendations could not but appear, in places at least, to be lop-sided. Without a simultaneous and comprehensive consideration of the whole realm of public finance, including revenue as well as expenditure, it would be difficult, if not impossible, to come to any system which would give satisfaction in all its details. The expenditure of the governments in India has been surveyed by committees entirely unconnected with those others who have surveyed their revenue resources; and the latter task has been further handicapped by limitations, which excluded certain specified items of revenue from their consideration. This will not help the Indian financial administration at all.

So far as their recommendations go, however, the findings and suggestions of the Taxation Enquiry Committee, in regard to the revenue from land, deserve a credit for liberalism, which must be tempered with the criticism that the Committee have not altogether divorced them from obsolete notions

of the place and importance of that revenue in Indian finance. Land revenue is no longer the most considerable, nor even the most important, item of income in the Indian financial system. It is, further, difficult to endorse altogether the Committee's postulate that revenue from land is in the nature of a tax on things, and not on persons; which, therefore, does not admit of progression. On this basis every tax on property in all its forms would be incapable of progressive burdens. It is, moreover, inconsistent with the Committee's own hope and suggestion that the supplementation by means of death duties would permit of a progressive taxation of land. Finally, the attempt to approximate the land revenue to an income tax, praiseworthy as it is, must be shorn of part at least of the Committee's credit, inasmuch as they halt midway without going to the logical conclusion their own reasoning inevitably suggests. An income tax on any kind of income, however derived, must be progressive: and if it is progressive, it must also permit of a certain minimum of subsistence to be entirely exempted from any taxation. The committee are unable to recommend this exemption of the smallest holding from taxation, notwithstanding their realisation of the infinite and uneconomic subdivision of agricultural land, with all the hardships and waste it implies. They do not, also, seem to have considered fully the fact that the cultivator is not burdened only with the land revenue in India. He has to pay the bulk of the salt tax, and the excise as well as the customs revenue; he bears no inconsiderable portion of the judicial stamps revenue, of the forest dues, of registration charges, of irrigation receipts of Government, of the railway and post office receipts in so far as they can be called taxation; so that the tax on his land, his only employment, falls unduly heavily on him in proportion as his holding is small. The only satisfactory reform of the land revenue in India is to approximate it completely to the income tax and other property taxes in European countries. For the amortisation of this revenue, we think it may help to attract additional capital into agriculture in India,—especially in the cultivation of commercial crops; and though the difficulties are no doubt many and serious, the proposal needs more serious consideration than this Committee have given it.

CHAPTER IV

Revenue from Direct Taxes

I.—Direct *vs.* Indirect Taxes

The distinction between the direct and indirect taxes is adopted more for the purpose of convenience in discussion than because we recognise a fundamental difference between the two kinds of the taxes.* The original distinction between these two kinds introduced by the physiocrats was as logical as it was radical. They considered direct taxes to be those which fell immediately upon the tax-source, and they considered only such taxes to be desirable†. But in practice the tax-reformers of the last century found it possible to preserve the radical simplicity of the Physiocratic "*Impôt Unique*" on the "*Produit Net*," as much on account of the difficulty of ascertaining the total national produce and of devising a single tax from such produce, as of making the tax suffice for the constantly increasing wants of the national exchequer.‡

Being disinclined to consider the distinction between the direct and indirect taxes as anything more than a principle of administrative convenience, we need hardly dwell at length upon the relative advantages of the two

* "The classification of taxes as direct or indirect is no longer a question as to the remoteness of the tax object from the tax source, but simply a question regarding different kinds of tax objects : it is a question of the technique of taxation." (Cohn, *Public Finance* P. 526).

Speaking on the Budget, April 15, 1861, Gladstone compared direct and indirect taxes to two charming sisters, the one blonde the other brunette, the one more frank and outspoken, the other inclined to be shy and retiring ; as member of the House, and more particularly as Chancellor of the Exchequer, he had always considered it his duty to pay his respects to both. (Cp. the Budget Speeches of W. E. Gladstone.)

"A direct tax is one which is demanded from the very person, who, it is intended or desired, should pay it ; indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another." (J. S. Mill, *Principles of Political Economy* Bk. V. 3.)

† Cp. Mercier de la Reviere, quoted by Cohn in his *Science of Finance* p. 524.

‡ The American Henry George was a later advocate of the single tax almost on the Physiocratic ideal. In the language of Cohn: "Even on this basis of a difference merely in the technique of taxation, it is difficult to find an agreement in the authorities on the subject. Once free from the logical and fundamental distinction of the French school, it becomes increasingly difficult to accept a fundamental division. K. H. Rau considered the distinction to hinge on whether or not the persons paying the tax in the first instance were intended, and did in fact bear, the burden of the tax ; but as this was a distinction of externals only, he discarded it in favour of another: Taxes on expenditure, and those on assessments. Hoffmann abandoned the distinction, because he considered the distinction between the taxes on possessions and those on transactions more fundamental and more in accordance with the true conception of the direct and indirect taxes. This latter division has the merit of pointing to the difference that must be observed in the collection and administrative treatments of these two kinds of taxes. But beyond this, the logical position remains practically unaltered. It is impossible to consider all taxes on transactions or expenditure as indirect, and all taxes on possessions or assessments as direct. Even the most common illustration of the indirect taxes,—the customs duties levied on goods imported from abroad,—may be shown to be in reality a direct tax, if the importer is himself the consumer, as in the case of goods imported through the post office." See also Chapter I, *ante* p. 203 et. seq.

kinds of taxes. It is commonly believed that the progress of the political society from the personal, absolute regime to the constitutional democratic government is synchronous with, and often facilitated by, the change from the indirect to direct taxation. Because the direct taxes make the taxpayer painfully, relunctantly aware of the burden he is bearing, they lead him to take a more active interest in the affairs of the government. Because the burden of indirect taxes is disguised and unperceived, they are necessarily the favourites with governments constituted on absolutist principles, and justified, if at all, on the ground of their paternal solicitude.* This advantage is bound to be overriding all the disadvantage of direct taxes wherever the ideal of political progress on democratic lines is accepted. It is sometimes argued that indirect taxes are more flexible, more voluntary, more convenient in administration, more truly in accordance with the ability of the tax-payer. But if by flexibility is meant the possibility of raising more revenue by a slight increase in the rate of the tax, it is difficult to see how the most commonly accepted instances of indirect taxes can be more productive. At a time when the exchequer is depleted by a war or some other extraordinary demand, it is more than likely that the trade of the country would have been disorganised if not paralysed, and the ability of the people to maintain a high standard of consumption would be much reduced. At that time every addition to the rate of the tax cannot but prove a disappointment if it is intended to raise additional revenue. Even in normal times, the most common phenomenon is that the yield of these taxes does not increase in proportion to the addition to the rate, as the increase in price will unavoidably result in a diminution of the consumption and consequently of the tax return. It is thus impossible to consider these taxes flexible in the sense that their yield is elastic. They are *voluntary* in the sense that, these being mostly taxes on consumable commodities, the people's use of the taxed commodities is taken to be an indication of their willingness to pay the taxes. But more often than not, the modern financier, seeking additional revenues, takes only those articles of consumption, which, being of universal necessity, are bound to be consumed in large quantities, and consequently sure to yield a large return. But as the commodities selected for taxation are prime necessaries, it is no use to say that they can avoid the burdens by not using the taxed articles unless there is some effective substitute. And even supposing that there is an effective alternative, the tax would occasion sacrifice of enjoyment on the part of the people, inasmuch as it results in an alteration of the direction of consumption.† We conclude, then, that the

* "Les Impots directs portent immediatement sur les personnes, sur la possession, ou la jouissance de la richesse; les impots indirects sont percus a l'occasion d'un fait, d'un acte, d'un exchange" (Le Roy Beaulieu : *Traite de Finances*).

† We are not here concerned with those indirect taxes on commodities, the consumption of which is sought to be prevented or discouraged for reasons of national productivity, or because the taxed articles are believed to be deleterious in their effects. In such a case the object of the financier is not revenue but social reform or industrial regeneration, which we may for the moment set aside. But the fact may be noted that in so much as the tax is productive, and the national exchequer becomes dependent on it, the original object of restricting or redirecting consumption is apt to be obscured.

apparent voluntariness of these consumption or commodity taxes is misleading; and the burden of taxes would be inequitable as between the rich and the poor, which would not be counterbalanced by the fact that every consumer is free to escape the tax burdens by not using the taxed article, except when articles of luxuries alone are taxed. As regards convenience in administration, it may be conceded that customs and excise administration in modern States, and the taxes on commodities levied by local authorities, are more convenient in administering than perhaps income taxes and death duties. But this convenience is conditional upon an efficient service having been developed, and the taxes offering no temptation to evasion.*

The great difficulty in the case of direct taxes is to find a suitable source of taxation which would not admit of a transfer of burdens. By common consent, income and property taxes are regarded as direct taxes, though it is by no means quite certain that the burden may not be shifted by the tax-payer by asking for a higher salary or pension, or seeking more paying investments. Such as they are, however, they are least likely to shift the burdens. But the main objection against an income tax is that income is not a reliable indication of ability for taxation. The same income may mean quite different utility to two different persons, one of whom gets it from his property, the other earns it by twelve hours' daily toil; one has no one but himself to support on that income, the other has a growing family to feed, clothe and bring up.† But this difficulty is easily cured by a system of progresssive taxation, in which the rate of the tax rises in proportion to the rise in the size of the income: by exemption and rebates or refunds according to the size of the income, its source, and the demands upon it; and by differentiation in the rate of taxation according as the incomes are earned or not earned. Taxes on property do not always admit of the same graduation, exemption, or rebates, possibly because the chances of injustice would be comparatively less.

The great advantage, however, of the direct taxes is that they are more truly in accordance with the ability of the tax-payer as indicated by the least objectionable measure of ability. There are defects, no doubt; but more accumulating experience enables us to devise means by which to minimise these disadvantages, and the consequent chances of an unequal, inequitable distribution of the tax burdens. They are also more likely in an hour of emergency, by a mere increase in the rate of the tax, to yield correspondingly more.‡ There are chances of evasion and false declaration of the income;

* "Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it. But the 'convenience discussed above is not so much that of the tax-payer as of the Government." (*"Wealth of Nations,"* Bk V. Ch. II.)

† The British Income-Tax system makes a distinction between incomes which are earned and those which are unearned, by levying a higher rate on the latter. It also grants some concessions to married people and to large families. See the report of the Royal Commission on Income Tax, 1920.

‡ In England they have, ever since its introduction, relied on the income tax to make up any sudden, unexpected strain on the national finance. In the last war as in the Boer War, the Income Tax accounted for the largest proportion of the increase in revenues. From 44·80 million the Income Tax Receipts of 1913–14, they rose to £290·45 million or by 650 per cent. in 1918–19.

but we may escape these defects by the device of taxing at the source, and punishing the false declarant or his property, should it afterwards turn out to be in excess of declaration.*

II.—The History of Direct Taxes in India

Direct taxation as such was not unknown in the financial administration of India even in the pre-British regime.† The land tax or land revenue is the most obvious instance of a direct tax, which has been familiar to the people of India ever since the beginning of their history. Practically the whole of the local finance in ancient India was of the nature of direct payments. When direct taxation in the shape of an income tax was first contemplated under the British rule, there were many who felt that the novelty of the tax, and the inquisitorial methods which its administration would involve, would go a long way in making the tax a failure. But as Wilson, the first regular Finance Minister of India, observed:—

> "Sir, I have consulted the ancient sacred authority of Manu, and the version of the ancient Hindoo law, upon the best authority at my command, is as follows:—
>
> "The revenue consists of a share of grain and of all other agricultural produce; a very small annual imposition on the petty traders and shopkeepers, and a forced service of a day in each month by handycraftsmen. The merchants are to be taxed on a consideration of the prime cost of their commodities, the expenses of travelling and their net profits. The following are the rates of taxation; on cattle, gems, gold and silver added each year to the capital stock, one fiftieth, which in the time of war or invasion may be increased to one twentieth. On grain, one twelfth, one eighth, one sixth according to the soil and labour necessary to cultivate it..............On the clear annual increase of trees, fresh meat, honey, perfumes, and several other natural products and manufactures, one sixth. The king is also entitled to 20% on the profits of all sales...............Besides possessing mines of his own, he is also entitled to half of the precious minerals in the earth.'
>
> "Now, Sir, I must say that there is latitude enough for the most needy exchequer and the most voracious minister:—a twenty per cent. income tax upon profits; a tax varying from two to five per cent. upon accumulated capital; a share of almost every article produced; an annual tax on trades, half the produce of mines."‡

If we leave aside the minor examples of direct taxation, more in the nature of an unwelcome inheritance from the past than as representative of the considered financial policy of the Government of India, the first general Income Tax was levied by Wilson in 1860 for a period of five years in order

* Under the Prussian system of income tax collection, the estate, if found on the death of the tax-payer to be more valuable than what the declaration of income during life time would warrant, all the arrears are charged on the estate.

† "Direct taxes on the trading classes have been imposed in India from time immemorial, and there is at this stage no important Native State, in which it is not a recognised part of the fiscal system. There is probably no country in the world in which so large a proportion of a great revenue is raised by direct small payments as in India. As a matter of fact, the greater part of the Land Revenue of more than £20,000,000 is raised by what are virtually direct payments from an immense number of persons. So again, nearly the whole of the local taxation in a great part, perhaps in the greater part of India, is received in the form of direct and not indirect payments." (Strachey, *Finances and Public Works of India*, 1869–81, p. 207).

‡ Budget Speech of Wilson, 16 February 1860, p. 16.

to meet the difficulties caused by the Mutiny.* It was levied, on the English model, on all incomes above Rs. 200 per annum, and arising from property, professions, trade and offices, at the rate of 2% on incomes between Rs. 200 and 500 per annum; and 3% on larger incomes, which also bore the additional one per cent. to be used for purpose of local development. The taxable minimum was raised to Rs. 500, the year after the next, when the rate was made uniform at 3%. The average yield was about Rs. 1'54 crores. When the first Act came to an end, its disadvantages and inconvenience were magnified, and the attempt at direct taxation in this modern form was for a time abandoned. But the finances of India had come to depend too much on such aid as this tax afforded to allow Government for ever to abandon this source of revenue. Owing to the uncertainty of the opinm revenue, the demands of famine relief, and the programme of public works, they were threatened with chronic deficit, and hence the License Tax on trades and professions was introduced in 1867 to take the place of the expired income tax. Being a tax on non-agricultural incomes, it applied only to those persons who earned, in the exercise of their trade or profession, more than Rs. 200 per annum, the taxed classes being divided into groups, somewhat on the Prussian model, and paying fixed rates amounting to 2% on the minimum income of each class. The yield of this tax was Rs. 65 lakhs; bnt the income was further increased by the introduction in 1868-69 of the Certificate Tax, at the same time relief being given under the old tax by raising the taxable minimum to Rs. 500 per annum, and reducing the rates to 3½ on the minimum income of each class. The yield was reduced to 51 lakhs. But the same year (1869), the Certificate Tax was converted into, and replaced by a general income tax. The taxable minimum and the rate were at first left unchanged; bnt owing to the continued strain on the finances and to apprehended deficit, the assessment was raised by 50% while the methods of assessment were made more rigorous. The 521,000 taxed persons paid the total amount of Rs. 1'11 crores. The rate was further raised to about 3 per cent. on the minimum of each class below Rs. 2,000 a year, and 3⅛ per cent. on income above that minimum. In spite of the enhanced rate, the yield came to only 2'07 crores, and the number of assessees fell to 386,000. In the next year 1871-72, the taxable minimum was raised to Rs. 750, and the rate was a uniform 2 pies in the rupee or a little over 1%. The yield was then 82 lakhs, and when in the following year the minimum was raised to Rs. 1,000, the yield fell to 58 lakhs. The tax was abandoned at the end of 1872-73.

During this experimental stage everything was against the tax becoming an integral feature of Indian Finance. The people were no donbt unfamiliar with the mechanism of an income tax, and there was room enough for petty oppression and extortion. Besides, the constant changes in the

* The introdnction of the first income tax was the occasion of a constitntional struggle of some importance between the Government of India and the Madras Government. Sir C. Trevelyan, the Governor of Madras, vehemently opposed the Income Tax and was in consequence recalled,

rates and the taxable minimum introduced a confusion which was in no way compensated for by the obvious desire to take no more from the people than was necessary for the occasion. The plea of the Bengal landlords, and of agriculturists in general, to be exempted from this burden on the ground of the Permanent Settlement being exclusive of all taxes, was overruled; and that contributed in no small measure to the general unpopularity of this tax. The next attempt towards a direct tax was made in 1877 to meet a falling exchange and a heavy famine. Starting with the United Provinces and the Punjab, the license tax on traders and artisans was made common practically to the whole country. All incomes derived from non-agricultural trades and dealings were taxed at fixed rates varying with the classes into which the assessees were divided. Though the classification differed in different provinces, they were all subject to the general condition that in no case was the tax to exceed 2% of the income. The taxable minimum was at first above Rs. 400, but was in 1880 raised to Rs. 500. Incomes derived from Government service and professions were free from this tax. The minimum tax on any individual was thus Rs. 10, the maximum being Rs. 500, except in Bombay, where it was Rs. 200. This arrangement, however inequitable according to modern notions, continued unaltered till 1886, and the yield varied from Rs. 90 lakhs in 1878-79 to Rs. 52 lakhs between 1883-86. Defective as it was, the license tax of 1877-78 was left undisturbed by Government, partly because by constitution the Indian Government is averse to changes, partly because the people were becoming gradually accustomed to this form of taxation, which might have been unnecessarily disturbed by an ill-timed change, however sound it may seem in theory. In 1886-87, however, the need to finance the Burmese War, and the additional military expenditure consequent upon the Penjdeh incident, as well as the demands of a rapidly falling exchange, suggested a radical revision. A general income tax on non-agricultural income was thus introduced to take the place of the license tax. The taxed incomes were divided into the four classes of (1) Salaries and Pensions, (2) Profits of Companies, (3) Interest on securities, and (4) other sources. Incomes over Rs. 2,000 a year were to pay at a general rate of 5 pies in the rupee (about 2½%); incomes from salaries and securities between Rs. 500 and Rs. 2,000 were to pay 4 pies in the rupee (about 2%); while similar incomes derived from other sources were to pay fixed rates according to classes. Of these there were six classes, on the three lowest of which the tax was equal to 2% on the minimum of each class, and for the others it was slightly in excess of 2% on the maximum of the class. Incomes below Rs. 500 were to be free, as also all incomes derived from land or agriculture. Exemption was similarly granted to charities and endowments, and to soldiers whose income was below Rs. 500 a month.

The law as thus passed was for the whole of India, and its main principles still remain in force. Subsequent changes were: (1) in the direction of raising the minimum exempted, which was raised to Rs. 1,000 in 1903, thereby freeing 315,000 persons out of 500,000 tax-payers, at a

sacrifice of about 29 lakhs or 14% of the previous revenue; and again in 1919-20, when the tax-free minimum was raised to 2,000, at a sacrifice of about 75 lakhs, freeing 237,000 persons out of a total of 381,000; and, (2) in the direction of sharpening the rate of graduation of the tax. In the original Act, there was really no attempt to make the tax progressive, unless we consider the difference between 4 pies and 5 pies as indicative of the omission. Even in the reforming Act of 1903 no attempt was made to improve the progression. It was owing to the grave necessity occasioned by the last war that the income tax in India for the first time accepted the principle of progression in assessment. The budget of 1916-17 left untouched the exemptions granted by previous legislation, as also the rate of taxation on incomes upto Rs. 5,000 a year. But for incomes exceeding Rs. 5,000, the tax was raised to 6 pies in the rupee upto Rs. 9,999; on incomes between Rs. 10,000 and over to one anna in the rupee or 6%. The profits of companies were made assessable at the uniform rate of 6¼%, subject to exemption in the case of individual shareholders whose income from all sources was such as to demand a lower rate. In the next following budget the principle of progression was carried a step further by the introduction of the Super Tax, which began in respect of incomes exceeding Rs. 50,000 and was charged at the rate of one anna in the rupee on every rupee after the first 50,000; at 1½ anna in the rupee on incomes between one lakh and one and a half lakh; for every rupee of the next Rs. 50,000 of the excess, *i.e.*, between 1½ lakh and 2 at two annas in the rupee or 12½%; and on incomes over 2½ lakhs at the rate of 3 annas in the rupee. These are in addition to the standard Income Tax at the rate of one anna in the rupee or 6¼%. The maximum charge, therefore, under the Indian rates is 25%, being much under the rate charged in England or the United States. The total yield of the Income and Super Taxes in 1918-19 was nearly 10 crores.*

II.—Receipts from Taxes on Income

The subjoined table† shows the growth of the Income and Super Tax and other cognate taxes since the beginning of the period under review.

(*In thousands of rupees*)

	Rs.		Rs		Rs.
1861-62	2,05,46	1906-07	2,13,47	1918-19	11,63,76
1871-72	2,07,20	1907-08	2,25,62	1919-20	23,20,78
1881-82	53,68	1908-09	2,33,01	1920-21	22,19,28
1886-87	1,35,47	1909-10	2,[illegible]3,84	1921-22	22,17,54
1891-92	1,65,28	1910-11	2,38,99	1922-23	18,13,94
1896-97	1,87,28	1911-12	2,47,93	1923-24	18,49,11
		1912-13	2,61,35	1924-25	16,21,23
1901-02	2,05,39	1913-14	2,92,53	1925-26 R. E.	16,24,69
1902-03	2,10,56	1914-15	3,05,50	1926-27 B. E.	16,14,67
1903-04	1,82,19	1915-16	3,13,51		
1904-05	1,88,97	1916-17	5,65,94		
1905-06	1,98,20	1917-18	9,46,21		

* The Super Tax, modified in 1920-21, was reintroduced in the next budget, (1921-22) at a sharply progressive rate, being 25% maximum on incomes exceeding 3½ lakhs a year.

† The figures show gross yield in every case. Upto 1899-1900 the figures give £1=10 rupees, and since 1899 £1=15 rupees. After 1911-12 the figures have been taken from the decennial statistical abstracts.

Apart from the taxes on income there are now no other direct taxes under the name of assessed taxes, with the possible exception of the capitation tax or "Thathameda" of Burma. The proceeds of this tax are, however, credited under the head of land revenue, though the tax really represents the income tax for the up-country regions of Burma. Since 1905, the whole of Lower Burma, has been made subject to the ordinary income tax, while in Upper Burma, with the exception of Mandalay, the tax applies only to Government servants and to some employees of the joint stock companies. In the Central Provinces there was another direct tax, the "pandhari tax," which was abolished in 1902. The only other representative of direct taxation in the Indian fiscal system is the Provincial Rates which will be discussed anon.

At the end of the nineteenth century, 84% of the assessees were in the lowest class, and paid between them 35% of the total yield. The total national income subjected to the tax was declared about the same time at 78 crores. Of the four classes of incomes, salaries and pensions accounted for 30% of the yield, profits of companies 7%, interest on securities 5%, and the other sources 58%. As between the provinces, Bombay had 1 out of every 209 persons paying the tax, Madras 417, Punjab 444, Bengal 580, United Provinces 637, Assam 681, and Central Provinces 1,077. Ten years later the smallest taxed incomes accounted for 65% contributing only 1/5 of the total revenue. The total number of assesees was 270,000. Of the total tax, salaries contributed in 1911-12, 28%; company profits 11%; interest on securities 5% and the other sources 46%. In 1924-25, there were 2,91,348 persons of all grades assessed to the tax on income, paying a net amount of Rs. 7,21,84,145. The total income assessed to the tax was Rs. 166·13 crores of which salaries accounted for 62·87 crores or 37½%; the income of Hindu joint families aggregated 15·10 crores, and all other incomes 88·15 crores. The largest number of assessees 67·86% is in the lowest class of incomes, *i.e.*, between 2,000 and 2,499 p. a.; but the largest amount of the income taxed (23·16 crores) is in the class between Rs. 5,000 and 7,499 p. a.; while the greatest tax receipts are from incomes over Rs. 50,000 p. a. In that class 2,498 individuals pay among them Rs. 137·22 lakhs by way of income tax. As between the provinces, Bombay has the largest number of assessees 67,344, Bengal coming second with 41,651, and Madras third with 35,641. The Punjab has 26,009 assessees, while the United Provinces muster 24,031, Bihar and Orissa 13,887, Central Provinces 11,283, Assam 5,104, N. W. Frontier 3,506, and Delhi 2,680.*

III.—Criticism on the Indian Income Tax System

Considering the Indian Fiscal system as a whole, we cannot but admit that as compared to western nations, direct taxes play a very insignificant part

* Cp. the Report of the Central Board of Revenue for 1924-25.

in the tax system of India, if we leave out of account the land revenue as a debateable subject. If we include the land revenue and provincial rates, the total yield of direct taxes would be about Rs. 55 crores in 1924–25 out of the total revenue of 220 crores or under 25%. This contrasts poorly with the direct taxes paying 40% of the total revenue in the pre-war era, or 80% of the total in the last war year, in the United Kingdom, or 60 % of the United States revenues in 1917-18. If we omit from these figures the great item of land revenue, the pre-war percentage would not much exceed 2½%, while to-day it would be some 8%. This shows a very disproportionate burden of taxation between the different classes of tax-payers. It is true, indeed, that the wealth of India being relatively very small, the yield from direct taxes would never be very great in this country. But making full allowances for these factors, the fact still remains that the proportion between the two classes of tax burdens is borne unequally by the different kinds of tax-payers.* It has been argued that direct taxes, of the kind of the English Death Duties, are impossible in India owing to the law of the Joint Family which allows of no division of ancestral property being made. But that custom, even admitting that it is impossible of modification by modern legislation, applies in all its rigour only to landed or immoveable family wealth. We shall show elsewhere some means of meeting that difficulty. Here, we may point out that at least as far as the moveable property of non-agriculture classes is concerned, the State in India may well tax it for the common need; and though the amount expected from such a source be small, the tax, if introduced, would help to right the present unfair balance in favour of the payers of direct taxes.†

Another great defect of our system of direct taxation is the exemption of agricultural incomes from taxation. The small cultivator of the ryotwari regions has indeed an income too small to enable him to pay a tax thereon; he would be exempted in any system of equitable adjustment of the tax burdens. Besides, he takes more than a fair share of the burdens of the Government by the payment of the land revenue, in itself a direct tax almost like an income tax. While in the case of the other incomes, all incomes below Rs. 1999 a year are now exempted, the bulk of the land revenue is paid

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*Cp. *The Wealth and Taxable Capacity of India* by Shah and Khambatta, Ch. III, p. 225 et. seq.

† The amonnt that might be expected from snch a tax is difficult to estimate. We have no records of transfers of estates and their valnes at the death of the original owner. The table in the margin shows the probable amount of total property which may be brought under such a tax. And if we assnme that about 10% of the total changes hands every year by death, and that it is taxed at 5% on an average, the total tax expected from this source would be under 7½ crores of rupees. See also the Report of the Taxation Committee.

	Rs.	
Total paid up Capital of Joint Stock Co.	270	Cr.
Bank deposits...	200	,,
Govt. Debt. and liabilities ...	1,000	,,
Municipal & Port Trust ...	50	,,
Miscellaneous...	30	,,
	1,550	

The above figures are more up-to-date than in the first edition, and have been taken from the statistical abstracts as well as recent budget statements but given for convenience in round figures.

by men living much under that minimum of taxation. If an attempt were made to make the tax burdens more evenly distributed, it is more than likely that a great portion of that revenue will have to be permanently abandoned.* But while there is a possibility of considerable decline in revenue if the exemption limit is raised, the incomes of the great Bengal land-lords or the Oudh Talukdars, now unfairly exempted from the income tax, will more than make up the deficit, if taxed progressively at a rate in proportion to the size of their incomes. The Permanent Settlement has resulted in an exemption from taxation, which is all the more scandalous as the individuals exempted are the most able to bear the burdens. But so great is the strength of this powerful vested interest that when, owing to war needs, the rate of the income tax was sharply raised in 1917-18, and an attempt was made to tax at least the income derived from the savings of the agricultural incomes, the representatives of the land-lord classes in the Imperial Legislative Council voted solid even against this slight infringement of their extraordinary privileges. In Bengal alone, the land revenue now collected is estimated to represent only about 25% of the rental of the Bengal land-lords. In the absence of an income tax on such incomes, and if the basis adopted in the Saharanpur rules were extended to Bengal, the revenue from land in that province would account for 6 crores; and together with Bihar and Orissa, it might be much in excess of 9 crores. The taxation of income would then be placed on another footing altogether. At the present time, however, assuming the land revenue from the *ryotwary* as well as the *zamindary* areas to continue on the existing basis in spite of its manifest injustice, the only means to equalise the burdens of taxation is to levy an income tax from the large landed proprietors at the same rate as is levied on other incomes on the *whole* of their income, no matter from what source they are derived. The argument against permitting a minimum for exemption from land revenue demand, *viz.*, that such a policy would only serve to intensify unbearably the evil of morcellement of agricultural land, may be disposed of by remarking that such a contingency may be effectively guarded against by enacting that no further sub-division from a prescribed minimum of economic holdings

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* The table in the margin shows the proportion of the land revenue contributed by the different provinces. Of the total land area in India 47% is held by small peasant proprietors and 53 by Zamindars. Of the latter rather more than a third or 40% is permanently settled, while the remaining 60% is temporary. Assuming for the sake of simplicity that the revenue is contributed in equal proportions by the permanent and the temporary tax-payers, some land revenue would have to be sacrificed in the different provinces. The entire revenue in the ryotwari districts need not be lost. But assuming that it is wholly remitted, the land revenue would be reduced by nearly 50%. If the charge in the zamindary area is doubled by a tax on income by itself, or in conjunction with some kind of death duties, the loss would be more than made up, and a grave injustice redressed. That portion of the land revenue which is due to irrigation works need not be thus sacrificed even in the ryotwari districts, as it is clearly a payment for a specific benefit received.

Land Revenue by Provinces 1924-25

	Rs.
Bengal...	3,10,73,587
Madras	6,15,05,867
Bombay	5,16,52,815
United Provinces	6,71,08,534
Punjab	3,53,68,120
Burma	5,76,68,689
Bihar and Orissa	1,67,57,975
Assam	1,05,13,655
Central Provinces	2,25,72,027

will be permitted, and that for those on whom such a provision would beat unjustly, arrangements will be made to buy them out. Even so, the problem would not be finally solved, since we would thereby create a large class of landless men, who would find no employment, unless we develop at the same time intensively a variety of large scale industry to absorb this surplus labour. We do not see why this last expedient should not demand the concentrated energy of the Indian people and of the Indian Government, since it offers the only solution of the entire problem.

A third defect of principle in the Indian income tax system is the exemption automatically given to all incomes from interest on public loans, &c., paid outside India. The Indian Taxation Enquiry Committee mention four different classes of incomes of residents abroad, that escape being charged to the Indian Income Tax, *viz.*, pensions paid outside India, interest on the sterling debt of India, profits of firms who have only branches or such agents in India, and the freight of ship-owners residing abroad. The aggregate income from all these sources is difficult to estimate; but Rs. 50 crores per annum seems to be, by no means, an extravagant figure; and charged roughly at 10% all round, the addition to the receipts from the taxes on income would be Rs. 5 crores.* Improvements in the system of administration, since the first edition of this work, have removed a number of the defects noted there specifically. But the one named here still remains, despite efforts made in recent years to round up such stray items as the profits of foreign banks or shipping companies doing business in or with India. There can be no question as to the justice and propriety of this suggestion; but the Government seem still unwilling to proceed in this matter. Compared to this, the taxation of the incidental income of public officers in the shape of travelling allowances, &c. woud mean insignificant gains; but every little counts, especially in these hard times. Finally, in the case of merchants and professional men, the assessment of the tax is necessarily dependent on the declaration made by the individual tax-payer, a declaration, which, there is reason to believe, is by no means excessive. There is, moreover, no distinction yet in the Indian income tax system between incomes which are earned by the personal exertion of the earner, and those which are the results of factors over which the earner has no control. Necessarily the former is uncertain, precarious, unsafe, and ought, therefore, to be differentially treated in the rate charged, or exemption granted. Similarly, too, allowance ought to be made according as to whether the income is for the exclusive gratification of the owner, or has other charges upon it such as the support of a growing family. A rebate or exemption must be granted on this account as well. Those changes, if made, might conceivably reduce the yield by 2 crores roughly. But if all the other changes, suggested above, are simulta-

* See however paras 232 et. seq. of the Taxation Enquiry Committee's Report. The hardship of double taxation of such incomes, once in India where they are earned and then again in Britain where they are enjoyed, is, if admitted, an imperial problem, which may be solved by joint action of the members of the common-wealth. But pending a satisfactory and universally acceptable solution of it, there is no reason why the obvious and just relief to the Indian tax-payer from this source should be denied to him.

neously introduced, the net total yield from the taxes on income would aggregate Rs. 50 crores gross per annum, made up as follows :—

(In crores of rupees)

		Rs.
1.	Yield as at present of the income and super taxes	16·0
2.	Yield from taxes on agricultural incomes at a higher rate	20·0
3.	Increase due to death duties on personal property	7·5
4.	Yield from interest, &c., on sterling liabilities, &c., paid abroad ...	5·0
5.	Increase due to better administration	2·5
	Less rebates and exemptions	3·0
	Net yield ...	48·0

Even if we deduct from this Rs. 17·50 crores as sacrificed on account of exemption from taxation to the small agricultural land-holder, it would still amount to Rs. 30 crores, at the present rates of the income and super taxes.*

IV.—Note on the Recommendations of the Indian Taxation Enquiry Committee regarding the Taxes on Income

The recommendations of the Committee may be summarised thus :—

> There is no historical or theoretical justification of the exemption of agricultural incomes from the taxes on income, apart from administrative or political reasons (paras 263–268). There are cases of exemption claimed on this ground, *e.g.*, planter or agrarian money-lender who is an agriculturist in name only—which create serious administrative difficulties, doubt, if the income-tax system were extended even to these classes, who can have no real justification for the exemption they enjoy ; nor that other case of the income of *bona-fide* agriculturists which is really not derived from agriculture. While this exemption endures, the Committee saw no reason to introduce a distinction between earned and unearned incomes as in Britain ; as though the only case of unearned income is that of agricultural rent. We have already declared our opinion that this exemption is no longer defensible, and ought to be summarily ended, if only to afford the indispensable protection from taxation to the cultivator of hopelessly uneconomic holding ; and when this exemption is done away with, there would be no case for not distinguishing between the manner in which different incomes are obtained, charging differentially those which are practically unearned from those which have to be earned by the sweat of the brow of the worker.

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* The present rates of taxes on income are :—

Between Rs. 2,000 and	5,000 p. a.	@ 5	pies in the rupee.
,, ,, 5,000	,, 10,000	,, 6	,, ,, ,, ,,
,, ,, 10,000	,, 20,000	,, 9	,, ,, ,, ,,
,, ,, 20,000	,, 30,000	,, 12	,, ,, ,, ,,
,, ,, 30,000	,, 40,000	,, 15	,, ,, ,, ,,
,, ,, 40,000	,, upwards	@ 18	,, ,, ,, ,,
On all joint stock companies and firms	...	,, 18	,, ,, ,, ,,

In addition there is a super-tax starting with incomes of Rs. 50,000 @ 1 anna in the rupee, and rising by ½ anna on every additional Rs. 50,000, to a maximum of 6 annas on incomes of Rs. 5½ lakhs.

The supertax on joint-stock companies is a uniform 1 anna in the rupee. According to a comparative statement in the Taxation Committee's Report (244) in England the maximum rate is as much as 52%.

Per contra rebates from taxation will have to be allowed to citizens who are married and have to support families on their incomes, despite the Committee's opinion (241) that such rebates are unnecessary.

It is impossible to agree with the Committee's (majority) sympathy with the non-residents who now escape taxation, but who in fairness ought to be taxed, at least on that portion of their income which is earned in India. (238–240). The bogey of double-taxation, though not entirely unreal, is very much exaggerated. On the other hand, their suggestion that "in the assessment of incomes the loss sustained in any one year should be allowed to be set off against the profits in the next subsequent year" is but fair; and the benefit of such a rule might be considerably increased, if the merchants and traders, as well as manufacturers on a large scale, are permitted to offer an assessment on the average of three or five years' profits. There need be no great loss to the Government from such a measure.

The Committee's proposal for a new progression of a sharper kind in the rates of taxation, generally commendable, is open to the objection that in actual assessment, incomes just above a turning point may have to bear a much higher burden than incomes just below that point, unless the lower rate is retained for the income upto the turning point, and the higher rate applied, as it should be, just above the turning point. On this basis, the stages can be made even more sharp than the Committee have made them, *e.g.*, from Rs. 10,000 to Rs. 12,000 instead of to Rs. 15,000, and so on; and the rates, too, may be made much sharper and higher. It is a little difficult to endorse the Committee's suggestion to convert the super-tax on companies into a corporations profits tax (251), especially their exemption to the holding companies; for the latter is a thin edge of the wedge for the introduction into India of the American Trust, which may not at all benefit the economic recovery and growth of this country. Their recommendations in regard to the provisions for guarding against evasion are, though generally commendable, unduly harsh against the smaller men and *bona fide* associates, like married people.

V.—Provincial Rates

The only other form of the direct tax is to be found in the provincial rates. These were first introduced to provide funds for the construction and repair of roads and schools, dispensaries and village sanitation in general, and other local expenditure. Acts authorising the levy of land cesses on the land rental were passed in Bombay, Madras, Bengal, the United Provinces and the Punjab between 1865 and 1871. Side by side with these the Punjab and Oudh cesses for roads, schools and the district post, assessed at the time of the land revenue settlement, were continued. The Central Provinces, Burma and Assam had similar additional cesses as well. Later, a Public Works cess at the maximum rate of one-half anna in the rupee, was added in Bengal; and while some of the cesses were raised a general cess in place of the numerous settlement cesses was substituted in Assam and Burma.

These cesses are generally assessed on the annual "assets" or rental value of land, calculated variously in the different provinces according to the nature of the prevailing system of land tenure in each province. Continued surplus of revenue over expenditure enabled the Government of India in 1905 to promise substantial assistance to the local funds equal to one-

fourth of the total income from the land cesses of all local boards. In the same year, the special famine cesses imposed in 1877-78 in the United Provinces, the Central Provinces and the Punjab, yielding about Rs. 18 lakhs a year, were abolished. Next year for the same reason the patwary and various other village service cesses were abolished at the sacrifice of 75 lakhs revenue. Petty appropriations, formerly made from the funds of local boards to meet the cost of normal schools, local government offices and the like, were discontinued. The relief thus given was at the expense of the imperial revenues. The principle then adopted by the Government of India was that no local cesses should be imposed on the land supplemental to the land revenue proper, except such as are levied by or on behalf of the local governing authorities, and for expenditure by these on genuinely local objects. The budget of 1913-14 abolished the appropriations from the land cess for provincial purposes. The proceeds of the public works cess of Bengal will now be made over to the district boards, while the appropriations for rural police in the province of Agra discontinued.*

* A small cess on tea and the recently imposed cotton transport cess are for the specific object of benefiting the industry concerned, which ought to have no place in a general review like this.

CHAPTER VI

Indirect Taxation in India

As has already been observed, the constitution of the Government of India naturally inclines them to favour indirect taxation, as being alike easy to collect, imperceptible in its effects, and adequate in its yield. With the exception of the customs revenue, the bulk of the indirect taxation has *not been the subject of any careful enquiry into the objects and aims of such* taxation, as well as the incidence, effects and administration of such taxes. The salt revenue and the excise have at different times, and for different reasons, provoked criticism, it is true; but in neither case has an attempt been made to consider and formulate a comprehensive scheme based on a scientific policy. If we leave out of account the land revenue, the salt revenue, customs, excise, stamps and registration contributed to the total revenues of India nearly 40%.

I.—Stamps Revenue

The stamps revenue of the Government of India is derived from two great classes of stamps, judicial and commercial.* This branch of the revenue is regulated by the Court Fees Act of 1870 as regards the Judicial or Court Fee Stamps, and by the Indian Stamp Act of 1899 as regards the other stamps, with subsequent amendments. The former is imposed on petitions, plaints and other documents filed before civil and criminal courts, as also before the revenue courts, with specified exceptions in each case. The latter imposes duties on commercial transactions recorded in writing, like conveyances, bonds, cheques, bills of exchange, and receipts. This last was altered in the budget of 1910 imposing higher duties on debentures, share warrants to bearer, transfers of shares and debentures, bills of exchange, probates, etc. The increase was calculated to yield an additional net revenue of about £126,000 a year. Of the two branches the Court Fee Stamps account for two-thirds of the total revenue, while the commercial stamps make up the other third.

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* The following table gives the total of the revenue from stamps and the charges of collection.

Year.		Revenue. Rs.	Charges.	Year.		Revenue. Rs.	Charges.
1911-12	...	7,22,26,940	20,12,842	1918-19	...	9,02,84,633	32,98,818
1912-13	...	7,60,36,726	23,08,473	1919-20	...	10,91,17,665	39,13,708
1913-14	...	7,97,74,387	25,97,154	1920-21	...	10,95,68,483	71,24,203
1914-15	...	7,62,30,650	17,97,950	1921-22	...	10,88 06,852	66,72,062
1915-16	...	8,15,04,487	22,07,249	1922-23	...	11,95,16,740	43,74,239
1916-17	...	8,66,50,437	26,01,986	1923-24	...	12,71,05,573	42,57,594
1917-18	...	8,59,12,830	26,44,835	1924-25	...	13,26,91,301	33,22,258

We have already considered, while discussing the expenditure on courts of justice, the question whether we should regard the stamp fees levied from litigants as a tax, or a return for service rendered by the State, and have held that they are more in the nature of a tax than of a price for a service. It is difficult to class quite satisfactorily the other branch of the stamp revenue, that derived from commercial documents. It is a charge made by the state for the authentication of documents which may have to be relied upon to prove disputed matters, and as such one may regard it as a sort of a fee for a service rendered by the State in the interest of the community. The fact, however, that the state attempts to graduate its charge according to the value of the transaction in many cases would go rather to show that whatever its origin, it is now regarded more as a tax than as a fee, which ought to be uniform, and must be relatively a small charge on the transaction, irrespective of the value or utility of the transaction. Whatever we may adopt as the theory of this charge, it is at the present time an integral item in the revenue system of most modern communities, being popular with financiers on account of the ease of collection and superintendence, which is so characteristic of the Stamp Duties. In India, for a considerable period, the stamp and registration dues were classed as indistinguishable; but since 1879-80 the items were separated, making the stamp revenue an independent item by itself.* The Indian stamp revenue has nothing to do with the consumption tax introduced in the form of a stamp duty, as in France or the United States.†

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* If we regard a fee as an accompaniment of an act of Government, which would be no less necessary even if no particular payment were demanded for it, so that it can evidently not be regarded as performed in consideration of the payment, (Rau: *Finanzwissenschaft*) the stamp duty can scarcely be considered to be in the nature of a fee. For the use of stamped paper, at least as far as commercial stamps are concerned, is between private individuals and merely collects a tax by means of its stamp, which neither renders an indispensable service, nor is quite candidly a tax by order of sovereign authority. "The stamp honestly confesses that it is nothing more than a useful form of taxing certain objects, or of collecting fees from objects which have no intrinsic connection with the fee. Being a piece of paper, it is well adapted for objects which are in the form of a piece of paper or are wrapped in paper—for documents as well as for playing cards, for instruments of exchange as well as for articles of consumption." (Cohn. Op. Cit. p. 424 art. 281.) See, however, the opinions of eminent economists collected by the Indian Taxation Committee (para 278) condemning the Stamp Duty in principle. They themselves would, as practical financiers, retain and even develop this form of taxation, which is condemned on principle, of course with the necessary improvements. The most important recommendations of the Taxation Committee in this behalf are rather administrative than of any intrinsic theoretic importance; *e. g.* that the duty on documents of indebtedness should be reduced as soon as possible, or that the distinction between documents by which possession is given and those by which it is not should be removed; or that a uniform duty of Rs. 10 on the articles and memorandum of association of joint stock companies, together with another duty of ½% on every Rs. 100 of capital authorised be substituted for the present duties.

† The following are some of the most interesting cases of the scale of stamp duties in India:—

Conveyances and other transfers of property 1%; bonds, mortgages, debentures and allied documents ½%; bills of exchange and promissory notes ·09% are charged *ad valorem*.—There are in certain cases maximum amounts fixed specifically, *e.g.*, reconveyance (Rs. 10), and releases (Rs. 5). Specific duties are also charged on partnership agreements (Rs. 2½ to 10) articles of association (Rs. 25), and memorandum (Rs. 15) of joint stock companies. Contract notes are charged one anna for every Rs. 10,000 of value or part thereof. It may be added that the provincial governments have in recent years increased the stamp duty from 25 to 50 per cent.

[*Continued on p. 247.*

II.—Registration

As observed before, the registration charges were, up to 1879-80, collected along with the stamp duty, but have since that date been recorded separately in the public accounts. The registration of documents is governed now by the consolidating act of 1908, called the Indian Registration Act (XVI) of 1908. There are two classes of registrable documents:—those requiring compulsory registration, and those in which registration is optional. Compulsory registration is applied to documents such as instruments of gifts of immoveable property of a value exceeding Rs. 100 or more, and some leases of more than one year. Registration is voluntary in the case of instruments relating to immoveable property of a value under Rs. 100, leases for not more than a year, instruments for rights in moveable property, wills, and other documents. The item in public accounts called registration also includes fees for searching records, for making copies, etc. In other cases, the law governing registration of transferred property is the Transfer of Property Act of 1882, as amended by the Act of 1904. Mortgages of any immoveable property are under that Act made compulsorily registrable, as also in the case of sub-leases. In fact the transfer of every kind relating to immoveable property is now compulsorily registrable.

The following table gives an indication of the amount of revenue derived from registration as well as the value of registered property passing hands and the charges in connection with registration.

Year.	Total value of property. (In lakhs of rupees.) Immoveable.	Moveable.	Total.	Total Revenue. (In lakhs of rupees.)	Total. Expenditure
1911–12 ...	107·32	8·10	115·42	63·56	36·80
1912–13 ...	120·76	8·54	129·31	69·97	37·94
1913–14 ...	132·61	8·42	141·03	74·49	38·05
1914–15 ...	131·96	8·50	140·47	75·08	39·43
1915–16 ...	128·51	9·69	138·20	74·99	39·41
1916–17 ...	137·08	8·45	145·54	80·19	39·30
1917–18 ...	143·51	8·50	152·01	80·32	40·39
1918–19 ...	157·36	7·76	165·13	79·44	42.38
1919–20 ...	210·96	9·51	220·48	104·37	47·59
1920–21 ...	251·22	11·09	262·32	114·89	56·73
1921–22 ...	237·98	10·05	238·03	108·89	63·79
1922–23 ...	230·82	10·05	240·87	121·49	64·53
1923–24 ...	210·16	10·10	220·26	120·29	64·94
1924–25 ...	210·45	10·21	220·67	126·92	65·44

It will be noticed that the revenue from registration fees is not in connection with those events which occur frequently in any society which

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Concluded from p. 146.]

Note this observation of the Taxation Committee:—"The duty on bills in India is, therefore, nearly double that in England, and nearly 5 times that in the United States. The disparity in the case of bonds has been accentuated by the fact that in some cases provincial legislatures have increased the rates of duty by 25 to 50 per cent." Such a heavy duty on commercial transactions cannot but come in the way of the economic development of the country.

need some sort of solemnisation by the intervention of the state authorities. If it be intended to derive a considerable revenue, more or less on the analogy of the stamp revenue, registration fees ought to be charged on such events as deaths, births, marriages, etc. In the case of marriage, it may be admitted, it may not be possible for some time to come to levy a license duty or fee, as the principle of civil marriage is not quite understood, and will not be easily accepted, in this country.* Unless the priesthood of all classes is subsidised, and religion made a department of state, a consummation very far from likely, it would be more costly than remunerative to institute marriage fees for the state. But a registration fee for death and birth certificates ought to be easily accomplished. If the fee is small, as it must be in the circumstances of India,—say one anna per each such event registered,—the revenue may benefit to the extent of Rs. 10 lakhs in round figures. A low charge, like the one suggested, would not cause any great hardship to the poorest section of the community, while a proper registration system might be immensely serviceable, not merely in improving our statistics of population, but also in enabling better measures for sanitation to be concerted.†

But a more prolific source of revenue would be an increase in the stamp duties, especially on commercial documents, like transfer of stocks and shares, issues of debentures, new shares, new companies and the like. We do not support such a measure in any hope of its being able to put a stop to, or even to discourage, unhealthy speculation, which is now so characteristic of the Indian markets.‡ Apart from the fact that intelligent anticipation of the factors of supply and demand of the staple commodities is an important, almost indispensable, economic service rendered by the speculator, and as such his activities should not be indiscriminately hampered, there is the more practical objection that such an object would be impossible to be accomplished by the means merely of an increase in the stamp duty. In the first place, it is most frequently impossible to distinguish

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* The Taxation Committee hold that a cautious experiment might be made in selected local areas in the imposition of a fee for the registration of marriages, provided it is made clear that the purpose of the registration is merely to afford superior probative value of the fact of marriage (para. 323). But on this view, the marriage license duty can scarcely be regarded as a substantial source of revenue.

† There are annually 7 million deaths throughout India, and about 7 million births in British India. At the rate of one anna for registration, this figure ought to yield Rs. 10 lakhs in revenue without any additional expenditure. We have no reliable statistics of marriages; and, as already observed, a registration fee for marriage would not be feasible for some time to come in this country. But assuming 1 million marriages a year, by a charge progressively rising according to the splendour and general expenses attending a marriage, of from one rupee to 100 rupees, it might be possible to get two million rupees from that source or more.

The Taxation Committee consider fees for the registration of vehicles to be a charge which ought to be no more than just sufficient to meet the cost of examining and registering the vehicles, and testing the drivers (para. 319). In Britain, the motor tax is productive of very substantial revenues, and there is no reason why, with a similar outlook, similar results should not follow in India. There are some 50,000 motor vehicles in India, which could easily bear an average progressive tax of Rs. 100 per vehicle per annum—or a gain of Rs. 50 lakhs,—almost wholly for local purposes. Registration fees for the use of fire-arms and weapons for display could also be made a considerable source of revenue.

‡ The Taxation Committee do not recommend a tax on futures, though they are not against a betting tax.

between legitimate commercial transactions and illegitimate speculation. And even if it were, the speculator would always find means to avoid the tax. The only object then that it may be fairly hoped, would be served by such a measure, is an addition to the public revenues.*

III.—Salt Revenue

The salt duty in India is an old item of public revenues alike instructive in its historical aspect, and productive in its fiscal aspect. It has been regarded by the present Government of India as a heritage from the older rulers of the country; it is by no means quite clear how this tax was collected under the indigenous regime. Assuming its existence, we hear first in history of the fiscal importance of this duty about 1760. Lord Clive, in his endeavour to reform the public service of the Company, and to prevent the many abuses that had crept in by the sudden change of character from a poor trading corporation to that of a mighty arbiter of the destinies of kingdoms and provinces, set apart the proceeds of the monopoly of salt for the benefit of the public servants of the Company, who received miserable stipends. Clive forbade them to accept what were politely described as "presents from the natives," and they were, therefore, thus to be compensated for the sacrifice of no mean portion of their incidental income. After the reorganisation of the public service by Lord Cornwallis in 1793, the salt monopoly was utilised as an ordinary source of public income for the state. In Bengal, salt was prepared by the Company's agents. Before the article could be brought to the market for sale, a duty of Re. 1 a maund of 82½ lbs. was added to the cost of production, which sum was reduced to Rs. 4 on salt from Native States before it could pass into British territory. Whereas in Madras and Bombay, good salt could be prepared from the evaporated sea-water, the Company's government collected the duty from private manufacturers, the duty being Rs. 2 per maund in Madras and Re. 1 in Bombay. Finally, as regards salt imported into India by way of the sea, an import duty of between 5 to 6 rupees per maund was charged. †

* As usual the absence of reliable statistics is the one great difficulty in making an estimate of the yield from such an increase of the stamp duty. In the Bombay Share Market 50,000 transfers a month have for years been quite usual; and as the bulk of these transfers was in shares well able to bear an increased duty, the present stamp duty may be doubled without much danger of business or revenue suffering thereby. Again, if speculation is to be discouraged without handicapping legitimate business, it would not be a bad idea to charge increasing registration duties, on every addition of capital to the existing companies, on every floatation which is new, especially in industries which are already sufficiently crowded with competing establishments to make the chances of a new venture somewhat more than doubtful. The higher charge would not, of course, be prohibitive of new ventures altogether; it should only be so high as to obtain an implicit guarantee of the belief of the promoters that the new venture would, in all reasonable probability, be a success. The principle of this note seems to be accepted by the Taxation Committee.

† For the origin and early working of the salt duty see Dutt's "*India in the Victorian Age*" page 144 et seq. According to him the salt revenue of the Company was £800,000 in 1793, and rose to £1,300,000 in 1844. In these fifty-two years the total quantity of salt manufactured was a little over two hundred million maunds, and the total income from the same was over sixty million sterling. He also points out that by including in their cost price the expenses of securing and protecting the revenue, the Company afforded considerable advantage to the English importer into India at the cost of the local manufacturer, though the original principle as laid down by the House of Commons

[*Continued on p. 250.*

On questions of general principles the Government of India have regarded the salt revenue, in the semi-monopolistic manner in which it is derived, as a peculiarly suitable source of public income. Said the Duke of Argylle:—

> "On all grounds of general principles salt is a perfectly legitimate subject of taxation. It is impossible in any country to reach the masses of the population by direct taxes. If they are to contribute at all to the expenditure of the State, it must be through taxes levied upon some articles of universal consumption. If such taxes are fairly adjusted, a large revenue can be thus raised not only with less consciousness on the part of the people but with less real hardship upon them, than in any other way whatever. There is no other article in India answering this description upon which any tax is levied. It appears to be the only one which at present, in that country, can occupy the place which is held in our financial system by the great articles of consumption from which a large part of the imperial revenue is derived. I am of opinion, therefore, that the salt tax in India must continue to be regarded as a legitimate and important source of public revenue. It is the duty, however, of the government to see that such taxes are not so heavy as to bear unjustly upon the poor, by amounting to a very large percentage upon their necessary expenditure. The best test whether an Indirect tax is open to this objection is to be found in its effect upon consumption.*

IV.—History of the Salt Revenue in India

Under the native administration salt was taxed, according to the Imperial Gazetteer, Vol. IV, page 250, in varying circumstances and at varying rates. The tax was one of a number of transit dues levied by the local government in each part of the country upon traffic passing along the main roads and navigable rivers. The East India Company continued this system of transit duties with elaborate arrangements of a customs house on the European model, thereby causing immense hardship, and multiplying occasions of corruption among the subordinate, low-paid officials. With the exception of the transit duties on cotton and sugar, these were abolished in 1843, and the loss of revenue caused thereby was made up for by the enhancement of the salt duty in the different provinces.† The cotton duties were abolished in 1855, while the salt duties were gradually reduced, until between 1869 and 1877 the salt tax in Lower Bengal was Rs. 3 a maund, in the United Provinces Rs. 3 a maund, in Madras and Bombay Re. 1/13, and in the regions beyond the Indus a few annas only. This variation in the price or duty on salt was due to the different measures that had to be adopted to secure the revenue in the different provinces according to the different sources of supply. The salt sources which supplied the United

Concluded from p. 249.]

was an equal treatment of both the local and the foreign salt. Lord Dalhousie noticed this difficulty and minuted for its removal. A considerable section of English opinion, however, agitated for the abolition of the salt duty altogether, and the Indian public opinion such as it was, supported the idea." See the Memorials in Dutt, Op. Cit, and Commons Fifth Report 1853, Appendix 7.

* Dispatch of the Secretary of State, dated January 21, 1869, quoted page 222 of the "*Finances and Public Works of India*, 1869-81" of the Strachey brothers.

† The loss of revenue was estimated at £345,000 by Lord Lytton in the Legislative Council, February 9, 1878.

Provinces and a portion of Bengal were situated in the Native States of Rajputana, the salt from which was charged a duty when entering the British territory. This process of collecting duties demanded the maintenance of stringent preventive measures. To prevent the untaxed salt from Rajputana, or the lightly taxed salt of the West and the South, from coming into the regions of higher taxation, a customs line of over 2,500 miles had to be maintained.* Naturally, therefore, there was considerable hardship to the trade between the parts of the country thus divided, not to mention the possibility of great variation in the prices of salt in the different provinces. To remedy this evil, Lord Mayo's Government acquired in 1870 a lease of the Sambhar lake to control one of the most important sources of salt in Rajputana at the same time to increase and cheapen the supply in the present United Provinces. By 1874 the customs line was reduced by nearly one-third. The remaining salt sources of Rajputana were similarly acquired by Lord Lytton's government which resulted in the complete abolition of the internal customs line. With a complete command of all the available sources of supply, the Government of India could next proceed to equalise the salt duty in the different provinces in 1878, when the duty in Bengal was reduced from Rs. 3-4 to Rs. 2-4 a maund, while that in Bombay and Madras was raised to Rs. 2-8-0 a maund.† The uniform rate thus created was further reduced to Rs. 2 a maund in 1882, but this reduction was short-lived, since in 1886 financial difficulties compelled the restoration of the old rate of Rs. 2½ a maund. From the first of April 1879, the customs line was abandoned with the exception of the Indus frontier, which had to be maintained to prevent the highly taxed Kohat salt from being smuggled across the frontier. In 1896, the Kohat salt duty was increased to Rs. 2 Lahori maund (equal to Re. 1-10-0 per maund of 82½ lbs.), and at about the same time proper arrangements were made to prevent smuggling. The last remnant of the old Indian customs line was abandoned in that year. Owing to a steady decline in the rate of the rupee, and to recurring famines, frontier expeditions, plague and other similar

* "The line was guarded by an army of nearly 13,000 men, and consisted along a large part of its course of a huge cactus hedge supplemented by stone walls and ditches." (Imperial Gazetteer Vol. IV, page 250-1). The wall was compared and comparable only to the great wall of China, and with about equal degree of success in the achievement of the object in view.

†Sir John Strachey in his Financial Statement for 1877-8 thus describes the internal customs line. "It is easy to give illustrations of my meaning...............There are the Inland Sugar Duties to which also I shall refer again presently; six years ago I heard them called in this council the most discreditable relic of the dark ages of taxation that exists in India...............Take again the system under which we levy our salt revenue in Northern India; no one denies that it is a positive disgrace to a civilised Government; but it remains unaltered."

The object of the changes in the salt duties was thus expressed: "To aim at giving to the people throughout India the means of obtaining with the least possible inconvenience and at the cheapest rate consistent with financial necessities a supply of salt the quantity of which should be limited only by the capacity of the people for consumption." Sir John Strachey's Financial Statement 1877; the result of these changes was an increase of duty on 47,000,000 people by 40% and reduction of duty on 148,000,000 people by 8% to 15%. In 1871, the consumption was 23,031,000 maunds and the net revenue £5,686,335. In 1879-80 the consumption was 27·28 and the revenue was 6,572,000.

unexpected expenditure, the Government of India was unable to reduce further the salt duty until 1903, 1905, and 1907 when it was successively reduced to Rs. 2, Rs. 1½ and Re. 1 per standard maund.† The duty was raised to Re. 1-4-0 during the war; but the heavy recurrent deficits of the post-war period led to a doubling of the salt duty in 1924, to be reduced to the old rate of Re. 1-4 in 1925.

V.—Sources of Supply and Modes of Taxing

The principal sources of salt production in India are :—The Salt Range and the Kohat mines in the Punjab and the North-Western Frontier Provinces; the Sambhar lake and other saline deposits in Rajputana; the salt soil on the border of the Lesser Runn of Cutch; and the sea salt factories in Madras and Bombay as well as at the mouth of the Indus. Of the total salt consumed in India, nearly 30% is imported from other countries by the sea; over 45% is produced by the maritime provinces of Madras and Bombay, or, including Sind, nearly 50%; and Northern India mines supply the rest. On imported salt a duty is levied equal approximately to the duty on inland manufactures. As for the salt produced in the country, there are two principal methods of levying the duty: Government either manufactures the salt itself, or obtains a monopoly of supply by requiring private manufacturers to sell to Government only. In some cases, as in Madras, the Government levies an excise duty, and allows the manufacturer to dispose of the salt to the private trader and consumer as best he can. Government factories are in some cases leased to private individuals, who manufacture and dispose of the salt under a license from Government. The following table shows the proportion of the revenue from the various methods :—

† Up to the reduction of the salt duty in 1907, the rate of salt duty in Burma differed from the uniform duty in India. Imported salt there paid only Re. 1 per maund. The total salt produced in Burma was taxed direct on the output at 8 annas per maund, since 1911, raised to 10 annas. The Mandi state salt mines are worked by the state under a special agreement and taxed relatively lower. The rock salt of Kohat range is, since 1905, subject to the uniform Indian tax.

Statistics relating to Salt Revenue*

Year.	Sale of Government Salt.	Excise on Local manufacture.	Duty on Imports.	Miscellaneous.	Total Revenue.	Expenditure.*	Consumption in thousands of maunds.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1899–1900	23,09,850	5,75,61,381	2,68,62,590	5,22,368	8,72,56,189	51,54,450	...
1900–01...	24,16,985	5,95,79,921	2,73,63,338	4,97,943	8 98,58,187	51,88,365	...
1901–02...	22,49,643	5,90,51,500	2,70,10,667	4,80,534	8,87,92,344	49,67,865	...
1902–03...	23,54,323	6,10,90,510	2,73,07,967	5,45,666	9,12,98,466	...	...
1903–04...	26,33,915	5,20,78,125	2,15,16,996	5,27,937	7,67,56,973	...	...
1904–05...	27,41,005	5,28,04,176	2,42,01,531	5,74,808	8,03,21,522	52,76,530	...
1905–06...	28,42,792	4,33,43,010	1,89,29,574	5,31,767	6,56,47,843	54,67,335	...
1906–07...	29,78,155	4,21,69,347	1,97,86,765	5,06,324	6,55,40,591	54,52,260	...
1907–08...	31,33,246	3,23,48,261	1,40,16,956	5,86,357	5,02,84,820	51,46,620	...
1908–09...	31,05,930	3,09,54,947	1,44,88,770	5,69,157	4,91,18,804	49,61,145	...
1909–10...	29,57,037	3,12,94,368	1,47,80,837	6,11,637	4,96,41,879	56,56,150	...
1910–11...	29,57,037	3,05,63,143	1,34,45,954	6,73,119	4,78,52,189	55,27,485	...
1911–12...	31,69,973	3,24,15,458	1,62,77,487	6,59,895	5,08,68,180	93,44,494	...
1912–13...	32,42,640	3,23,17,982	1,33,92,124	7,27,323	5,00,15,605	94,68,965	...
1913–14...	31,52,595	3,27,33,304	1,46,43,479	8,08,367	5,16,79,577	94,22,659	...
1914–15...	42 50,412	3,75,62,091	1,57,62,753	7,46,622	5,86,61,841	94,57,538	47,916
1915–16...	39,58,051	3,54,26,092	1,37,14,796	10,52,728	5,47,13,802	97,72,658	48,677
1916–17...	51,28,639	5,07,88,939	1,50,37,460	9,48,300	7,23,93,891	99,34,224	50,334
1917–18...	87,69,804	5,97,43,749	1,23,67,959	11,75,383	8,24,92,306	1,07,71,858	44,024
1918–19...	55,58,167	4,41,81,814	1,25,33.991	16,15,287	6,41,69,830	1,79,99,849	52,199
1919–20...	33,98,251	3,74,24,070	1,50,29,636	11,80,493	5,74,79,319	1,29,52,076	49,346
1920–21...	48,60,079	4,64,93,645	1,52,02,413	7,69,112	6,76,45,308	1,89,72,684	50,798
1921–22...	43,02,714	4,08,79,606	1,77,77,963	14,59,517	6,44,19,800	1,56,49,096	48,128
1922–23...	47,85,649	4,58,14,821	2,07,39,791	18,06,331	7,31,46,592	1,51,36,147	...*
1923–24...	68,92,249	6,97,85,360	2,32,09,650	13,50,746	10,12,38,005	1,36,11,986	...
1924–25...	40,56,358	4,68,85,170	2,66,66,288	9,69,757	7,85,77,573	1,20,20,723	...

These figures of the gross revenue, expenditure, net revenue, and consumption are interesting as affording evidence of the influence of a low rate of duty in stimulating consumption, and consequently adding to the total revenues. These figures, it will be noticed, show a regular decline in revenue in each year that the rate of duty was reduced; but the decline is soon made up by increased consumption owing to the reduction in price. The duty was reduced by 50% or 60% if we leave out of account the recent rise on account of the war, and the post-war deficits.

VI.—Critique of Salt Revenue

As already observed, the salt revenue is considered by the Government of India as a legitimate source of public income, not only because it forms an appreciable proportion of the total revenues, but also because it is, according to the official theory in the matter, the only way in which to tax a large proportion of the community, who cannot be got at by any other tax in the

*Figures later than 1921-22 for the consumption of salt—all India—are not available owing to the discontinuance of the practice of provincial returns. Figures after 1911–12 are taken from the Decimal Statistical Abstracts, and include, on the expenditure side, refunds.

entire system.* But even apart from the land revenue, the pressure of which is borne by two out of every three persons in India, who must also bear the burden of the salt duty unless they were prepared to escape the burden by ceasing altogether to use the commodity, the mass of the people bear more than their own fair share in the revenue contributed under the head of excise, stamps, customs, railway and irrigation receipts, provincial rates, forests and others. These make up the bulk of the tax revenue in India, and as it would be impossible to tax for the use of salt only those people who pay no other taxes at all, the statement would be utterly inaccurate that the salt tax is the only means to reach a large proportion of the people of India. It is almost impossible to find a citizen of India who neither possesses land, nor uses intoxicating drugs or drinks, nor goes to law, nor consumes forest produce, nor wears clothing home-made or foreign, nor pays income tax, nor travels by railways; and so it would be absurd to say that the salt duty is the only means to reach that section of the community which otherwise would escape all tax-burdens. The tax, moreover, is further objectionable, in that it does not permit of any variation in the rate to suit the ability of the tax-payer. As it is an important necessary of life, the rich and the poor alike must use it in the quantities they need without much regard to the price. It is true, the reduction of duty has shown an increase of consumption; but the fact argues, not the possibility of much further increase in the same direction, but rather the under-consumption due to an oppressive duty in the past. On the other hand, it is true that the salt duty, as now levied, has taken the place of the old oppressive transit dues. To the extent that these have been altogether abolished, the retention of the salt duty must be admitted to be not altogether injurious. Though when this fiscal reform was first thought of, the prospective loss of revenue from the abolition of the transit duties was sought to be made up by an increase in the salt duty rate, the saner policy has since prevailed, and the reduction or increase in the rate of the salt duty is now considered solely by itself.

It may also be admitted that the construction of railways and the improvement in the transport condition in general, have resulted in a substantial diminution. It was Rs. 5 in Bengal in 1871, Rs. 2·7 in Bombay and Rs. 4·8 in the United Provinces. In 1901–02, the same provinces showed a price of Rs. 3–8, 3–3 and 3–7 respectively, while in 1911–12 the prices were 1·8, 3·2, 2·13 and 2·06 in the provinces referred to. This improvement in the price does, no doubt, offer an effective set off to the existence of the duty. The only drawback that the critic of the policy need mention is, that the duty as charged to-day, falls on the subjects of the native states as of the British Go-

* "The salt tax is the only contribution toward the public expenditure that is made by a large number of the people." (Sir E. Baker's Financial Statement 1907-08). Sir Edward Law thought the people in general contributed 20% of their income to the Customs. See, however, the *Wealth and Taxable Capacity of India* by K. T. Shah and K. J. Khambatta, Pt. II, Ch. IV, where the poorer classes numbering more than ⅔ of the total section population are shown to bear nearly 60% of the total revenue burden, while the richer numbering less than a third of the population, and having more than ⅔ of the total wealth produced in India, bear only about 40% of the revenue burden.

vernment in India, while before 1878 the subjects of the Rajputana Native States were exempt from taxation of this kind. But as Sir J. Strachey has pointed out, it is possible to consider this an indirect mode of making these people contribute to the expense of the British Government, though it must not be assumed that they are altogether free from taxation. The growing consciousness of the unfairness of the distribution of the revenue resources of India as a whole, and particularly of the receipts from such sources as salt or customs, has compelled many an Indian State to address representations to the Government of India for a more equitable division of the revenue resources of India. Salt is one, and perhaps not the least important. But the issue was first publicly and definitely joined in the evidence of the Prime Minister of Baroda, Sir Manubhai, before the Indian Fiscal Commission. The principle such critics rely on is one impossible to challenge. They contend that every State should be entitled to at least that revenue whose burdens are borne by its own subjects. If, it was urged, the Government of India resorted to a policy of industrial protection, and to that end manipulated the customs duties which brought them heavy revenues, a part at least of these revenues would have been paid by the subjects of the Indian States who consumed the taxed articles. Why should not the States then share in this revenue on some agreed and definite basis ? The Government of India have more than once used their paramount position and influence indirectly and unjustly to tax the subjects of the Native States, particularly in regard to salt and the customs duties, if not also through their railway rates. The States concerned are now no longer inclined to acquiesce passively in such an inequitable arrangement. But they have as yet found no effective rejoinder to the Indian Government's contention that the latter bear almost alone the entire burden of the defence and the general economic development of the country ; which, they further contend, benefits alike the native as well as British India. The only solution lies in a complete federation of equal and autonomous states and provinces into a veritable United States of India, wherein resources as well as obligations would be more fairly shared by all.

The question would, perhaps, be beyond the pale of practical politics to consider whether salt duty should at all be levied in India. At the present rate of taxation, the revenue from that source is about 2½% of the total or 6% of the Central Government revenues, and even at the pre-war rate it would not be materially different. With the burden of the recent unproductive debt added to the finances, it seems most unlikely that any Indian financier would consider in the next generation the possibility of remitting the duty altogether. Dr. Paranjapye, however, as member of the Taxation Enquiry Committee, thought the duty in the normal times might well be reduced to 8 annas per maund. His other colleagues, while considering this tax on a physical necessity of life to be in the nature of a poll-tax, and as such a hardship, did not consider the prevailing rate of Re. 1-4-0 per maund as inappropriate or unduly hard. Theoretically the tax falls on a necessary of

life, the restricted consumption of which cannot but have undesirable effects on the health and physique of the people. In this respect it is unlike the other items in the excise revenue, where the commodities taxed are all more or less deleterious, and consequently no one need regret the restriction on consumption caused by the duty. On the other hand, this is the one duty which is contributed alike by the rich and the poor; though impossible to graduate according to the ability of the tax-payer, it is nevertheless a source of income which has a definite limit placed upon it irrespective of the incidence of the tax. The figures of income would not diminish appreciably even if the tax were reduced to 8 annas per maund. At a fairly low rate, therefore, there is no reason why the tax should not be continued, particularly if suitable exemptions are granted to every consumer for industrial purposes.

CHAPTER VII

Excise Revenue

I.—General Principles of the Excise Revenue

We may assume as a fact, the existence of which need not be doubted, though its justice and propriety may form the subject of dispute, that in all modern states taxation of the principal articles of consumption forms an important and integral part of their fiscal systems. The two chief forms of this taxation, which give rise to the most interesting questions of the science of finance, are the excise and customs duties, which have been taxing the ingenuity of impecunious financiers and the intellect of ingenious writers, for the whole of the last century and more. To take the excise revenue first, the terms are confined to the taxation of articles of consumption produced within the country, the tax taking the various forms of a license duty or fee, a simple duty on output, "octroi" or transit duties, or monopoly prices. The progress of society has been characterised in Europe by a steadily increasing revenue from the excise system, owing to the improvement of the standard of life, and the consequent increase in the wants of citizens and the means to gratify these wants, so that the modern European states derive very considerable revenues from this system of excise.* In favour of this system of taxation it is claimed that it is not only convenient to the tax-payer, in that he would pay as and when he obtains the taxed commodity and in proportion as he uses that commodity; but that he is himself the judge as to whether or not to use the commodity, and if to use it, how much. By this means, it is alleged, the tax payer indicates his own ability, and thus facilitates the apportionment of the burden of the tax in the most equitable manner. We have already seen how far this specious argument is really to be relied upon, especially as regards the measure of ability furnished by indirect taxes on consumption.† We need not dwell at length on the reasons which have recommended indirect taxation of this kind to certain governments in the past. But we must observe that these taxes would achieve their object only if the articles selected are not only of such general consumption as to afford the greatest possible revenue, but also capable of being really apportioned according to the financial ability of the tax-payer. The attempt to discriminate between luxuries and necessaries, and to adjust the tax rate accordingly, does not always prove a success. Not only are luxuries un-

*Before the war in the U. K. the excise revenue was £38·85 million out of a total revenue of £195·82 million or 20%. In 1918–19 the yield was £59·44 million out of a total of £889 million or 6·7%.

† See the discussion under the section dealing with the principles of direct taxation in chapter III.

productive, owing to their quantity consumed being necessarily small; they are apt to defeat the object of the financiers by a sudden shifting of demand due to a change in fashion, or the invention of a substitute. The modern needy exchequer cannot, therefore, rely upon the taxation of luxuries alone as an adequate source of income. On the other hand, taxation of articles of general consumption suffers from the defect, rather a grave defect in these days of militant democracy, that it leaves no means of exempting from taxation a minimum of income. We may, indeed, emphasise as we like the abstract duty of every citizen to contribute to the support of the state in proportion to his ability; but the existence in every modern state of large numbers of people, habitually living below a decent minimum of existence, makes this maxim a sad travesty of distributive justice in practice.

Under these circumstances, the excise duties tend to be narrowed down only to those commodities, which, being of general consumption, are likely to yield a substantial return, without causing undue hardship to the tax-payer. Even so, the list of excisable, articles must not be very large, or else the sheer difficulty of supervision and the expense of preventive establishments would compel the abandonment of the schedule. In a smaller list, the insistence on productiveness of the tax would lead to one of two alternative results: either the rate of tax must be very high,—a position which would be supported only when the taxed article, though widely consumed in the community, is open to some moral or social objection, and thus facilitates the task of the financier in adjusting duties with a view to reduce consumption on moral if not on fiscal grounds;—or else the articles selected must be such as, being of the widest possible inflexible demand, yield even at a moderate rate a heavy revenue. We can illustrate both these alternatives in the spirits duty and tea duty in England, the one an instance of excise, the other, of the customs revenue. However the tax is adjusted, the assessment and collection will be much simplified, if the articles taxed are produced under conditions which render supervision and control easy and concentrated, and relatively inexpensive. With this last object in view, the best framed fiscal system would endeavour to levy the duty at the most favourable point in the transit of the taxed commodity from the factory to the hands of the consumer. The convenient moment for taxation may, of course, vary according to the nature of the different industries; and, if it is sought to conceal the total burden of the tax, it may be divided at more than one point in the career of the same commodity. The possibility of distinguishing between the various classes of commodities of the same generic description according to their degree of deleteriousness would enable the financier in certain taxed commodities to vary the rate so as to penalise the most harmful consumption.

The one danger in taxation of articles for consumption which is produced within the country is that too great a regard for revenue may lead the financier to raise or manipulate duties without considering possibilities of evasion. It is true, indeed, that in most commodities liable to excise duties, the financier of the present day is able to judge accurately of the quality and

even the quantity produced, and to adjust his tax rates accordingly. But the same genius leading to perfection of appliances for testing quality is expressed in another direction by increasing facilities for producing substitutes to the taxed commodities, and thus avoiding the tax altogether. If the rate of the tax is high enough to encourage substitution, the excise schedule will have to be framed with a view to include all possible alternatives or substitutes. It will have to be reconsidered periodically to admit of any alterations demanded in fiscal interests by the advance in science. Above all, it must be framed with due regard to the possibility of competition in any taxed commodity. An excise system framed independently of the customs tariff is nowadays almost inconceivable, thanks to the modern facilities of transport, and the consequent readiness of competition in similar articles produced by different countries. Unless a country has a natural monopoly of the taxed article, or unless the monopoly has been acquired (*e.g.* the tobacco monopoly in France), the excise rates must never exceed the customs duties, and must be in close correspondence with those dues. The system of monopoly in excisable articles is, perhaps, the most suitable from the point of view as much of administrative convenience and fiscal productiveness, as from any social and moral point that may have been adopted, tacitly or openly, in the manipulation of the customs and the excise duties.*

II.—Excise Revenue in India

The excise revenue of the Government of India is derived from intoxicating liquors, hemp, drugs and opium consumed in the country, and is levied in the form of duty on the manufacture and sale licenses by fees.† In the paucity of our information as regards the system of excise revenue in the pre-British days, it would be difficult to draw conclusions as to the effects of British rule in the spread of the drink habit.‡ But, in any case it seems to be fairly well established that the indigenous governments, whether those now in existence or those which the British rule has supplanted, have had some system of "abkaree revenue" derived from the consumption of intoxicant liquors or drugs, which was commonly handed over to "Ijardars" or farmers of these branches of public income. The British Government inherited, and for a considerable period continued, this system of farming; but, while disinclined to undertake any violent departures from the prevail-

* Monopoly as a fiscal weapon has been almost unknown in the British fiscal system since the days of the Tudors. But the tobacco monopoly in France, the vodca monopoly of Russia, the camphor monopoly of Japan, to give but a few illnstrations, have proved sufficiently successful in practice and for a long time to justify us in quoting them as successful precedents to support the view favonred.

† There is a form cf excise duty, which is not included in the accounts under the head of excise proper, *viz.*, the cotton excise, receipts from which used to be credited to the head of customs.

‡ That the habits of the people were surprisingly temperate seems to be confirmed by the severe penalties and prohibitions imposed by the law-givers of the Hindus and the Muhammedans alike. On the other hand, in spite of these strictures, it is a notorious fact that at least in the Imperial House of the Moghuls, consumption of wine was by no means unknown; and judging from frequent references to such habits in the profane literature of the Hindus, they too do not seem, as a matter of history, to have been entirely free from a desire for stimulants. It is difficult to believe that the vice of intemperance could not have been utilised by the earlier Governments in India as a source of public benefit.

ing systems and habits, the present Government has felt more and more the indisputable claims of social and temperance reformers, who would abolish, if they could, the drink habit altogether by this powerful lever of state action and regulation of the manufacture and sale of the intoxicants. Since 1888, if not earlier, the general principle of deriving the maximum of revenue with the minimum of consumption has been accepted, and to this end we find the various provincial governments instructed to raise their rates of excise duty, at the same time that they should check illicit consumption and minimise the temptations to drink among the people, by the more restricted number of shops for the sale of such articles, more restricted hours of business, and more stringent precautions as to the situation and working of such places.*

The policy of the Government of India before 1920 was thus defined:—

> "The Government of India have no desire to interfere with the habits of those who use alcohol in moderation. **This is regarded by them as outside the duty of the Government**, and it is necessary in their opinion to make due provision for the needs of such persons. **Their settled policy, however,** is **to minimise temptation to those who do not drink, and to discourage excess among those who do; and to the furtherance of this policy all considerations of revenue must be absolutely subordinated.** The most effective method of furthering this policy is to make the tax upon liquor as high as it is possible to raise it without stimulating illicit production to a degree which would increase, instead of diminishing, the total consumption, and without driving people to substitute deleterious drugs for alcohol, or a more for a less harmful form of liquor. Subject to the same consideration, the number of liquor shops should be restricted as far as possible, and their location should be periodically subject to strict examination with a view to minimise the temptation to drink, and to conform as far as is reasonable to public opinion. It is important to secure that the liquor which is offered for sale is of good quality and not necessarily injurious to health."†

Since the introduction of the so-called Montford Reforms in 1920, the excise revenue and policy in regard to it have been made over to the provincial governments. But the latter have not, as we shall see, departed from the guiding principles laid down above, except in the direction of absolute prohibition,—an aim which is now obstructed almost entirely on financial grounds. It remains to be seen how far the autonomy of the provinces is utilised in India as the independence of the constituent states has been in America. Meanwhile, let us study the volume and incidence of this revenue in somewhat greater detail.

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* Compare the Dispatch of the Government of India No. 294 of 1908, and their orders on the Report of the Indian Excise Committee of 1905-06; also the papers published in 1914 on the Indian Excise Policy.

† See the Decennial Report of the Moral and Material Progress of India 1901 to 1911, p. 202.

III.—Statistics of the Excise Revenue in India

In view of this pronouncement of the general policy the subjoined table of the revenue derived from excise is interesting:—

Year.	Revenue.	Expenditure.
	Rs.	Rs.
1861-62 ...	1,78,61,570	13,53,470
1871-72 ...	2,36,91,090	13,53,470
1881-82 ...	3,42,72,740	19,68,860
1891-92 ...	5,11,72,640	19,00,970
1901-02 ...	6,11,50,215	24,92,325
1902-03 ...	6,63,69,630	28,37,760
1903-04 ...	7,47,01,440	32,08,920
1904-05 ...	8,03,01,360	36,34,710
1905-06 ...	8,53,17,300	38,71,740
1906-07 ...	8,84,73,285	41,16,135
1907-08 ...	9,44,05,150	44,41,410
1908-09 ...	9,58,44,420	58,58,280
1909-10 ...	9,80,67,310	59,68,695
1910-11 ...	10,54,54,710	60,89,910
1911-12 ...	11,41,46,285	62,88,803
1912-13 ...	12,41,68,787	64,28,572
1913-14 ...	13,34,14,505	65,62,932
1914-15 ...	12,28,53,214	68,95,269
1915-16 ...	12,94,83,132	70,61,095
1916-17 ...	13,82,38,495	71,79,474
1917-18 ...	15,24,25,600	72,68,217
1918-19 ...	17,33,62,773	80,77,913
1919-20 ...	19,25,94,029	91,57,295
1920-21 ...	20,43,65,359	1,20,03,848
1921-22 ...	17,18,61,914	1,22,60,198
1922-23 ...	18,55,21,656	1,28,79,921
1923-24 ...	19,40,51,689	1,28,01,743
1924-25 ...	19,51,68,430	1,30,86,613

Details of the Excise Revenue.

1924-25.	Central. Rs.	Provincial. Rs.
License and Distillery Fees, and Duties for sale of Liquors and Drugs	39,00,095	16,08,84,549
Acreage on land cultivated with Poppy ...	...	6,454
Transit Duty on Excise Opium	17,496	1,53,260
Gain on sale proceeds of Excise Opium and other Drugs... ...	1,66,518	1,56,09,236
Duty on Ganja	1,01,126	1,16,10,263
Fines, Confiscations & Miscellaneous ...	17,492	37,85,069
Refunds ...	*3,488*	*10,79,640*

This steadily growing revenue causes considerable speculation as to the explanation of this growth. The critics of the Government of India see in this growth of revenue an unmistakable evidence of the growth of consumption of intoxicating liquors and drugs, and the consequent spread of intemperance, with all its attendant evils. On the other hand, the Government of India and its officers find the explanation of the growth of the revenue in the improvement of the systems of control, and consequent increase in the recorded out-put, which previously did not come under observation, but did not exist the less for that reason; in the spread of a desire to imitate the rulers of the country in the habits of western civilization; in an unreasoning desire to testify the individual independence from conventional, dogmatic restrictions on life and sentiment; in the improvement in the economic condition of the people by the development of trade and industry, and the consequent redistribution of population from the field to the cities, with their greater opportunity and temptations to indulge in this vice; in a certain inevitable need for excitement in a community beginning "to live upon their nerves;" and, finally, in the increased rates of the duties levied. The Government do not gainsay the ideal of the temperance

reformer in India in that they are prepared not to increase temptation to excessive indulgence, and even to minimise opportunities in cases where a sense of imitation would superinduce unhealthy habits even where originally they did not exist. But from an administrative point of view, as well as for reasons of political importance, the Government cannot all at once accept and carry out a policy of total abstinence.* Before, however, we can properly estimate the strength of the reasoning on either side, it must be noted that at the present time the difference between the Government and their critics is one not so much about the ultimate ideal as to the means to achieve it. As the criticism comes to be concentrated upon the existing means of levying the revenues under excise, we shall do well first to examine briefly:

IV.—The Indian System of Collecting Excise Revenue

The progress of the excise administration proceeds from the old crude system of farming the revenue to the more modern idea of bringing the manufacture and sale of the intoxicants under some sort of Government control; and thus to accomplish the double end of regularising, increasing, and manipulating the duties so as to restrict consumption, as well as to guarantee a certain degree of purity and strength in the liquor consumed. The first improvement in the old farming or "out-still" system of taxation was to limit the number of shops in the area farmed, and next to establish an improved out-still system, whereunder the combined right to manufacture and sell at a special shop was annually granted on payment of a tax. By means of the sale fees under this system, Government was enabled to impose, and to some slight extent, regulate taxation on the drink traffic as a whole. But it was impossible to graduate the tax on the still-head principle, or insist on a standard quality or degree of strength. Besides, for political and social reasons, Government could not exercise all the control on the drink traffic as a whole which was possible even under this crude method. There were tribes of aborigines who regarded the privilege of making their own liquor in their own homes as a right, which the Government was not prepared to deny, especially when it could be pleaded that the liquor demanded was for purposes of a libation to the Deity, and must therefore not be touched by any but the hands of the devotees. As, however, the administration grew stronger, more settled and more consolidated, the numerous old-time pot-stills, scattered throughout the country, were more and more brought under Government control under enclosures called "the Central Distilleries," which narrowed the region of supervision, enabled a more graduated duty to be imposed upon every gallon issued from the still, and altogether facilitated and increased control. The manufacture of liquor and its subsequent disposal was further improved by means of transport passes, vend fees, and improved distribution.

* See, for a fuller exposition of the arguments for and against, the memorial presented to Lord Hardinge by the President of the 9th Indian Temperance Conference, Dr. Sarvadhikari, and the correspondence with the local governments and administrations in relation to the excise policy of India published by the Government of India in 1914. The report of the Indian Excise Committee of 1905-06 may also be mentioned here, though it will again be more fully referred to latter.

The next stage in the development of the excise policy was the adoption of the principle of the Still-Head Duty. At the time when the Indian Excise Committee of 1905-06 was appointed to investigate into and report upon the whole policy, the four main systems in operation were :—

(A) The system of **Central Distilleries**, which are mere collections of native pot-stills in Government enclosures; (B) The **Contract Distillery** system of Madras, as worked there since 1901, which has now been adopted as a model in Bengal and the Central Provinces. Under this system the monopoly of supply in a district, or other selected area, is given out on contract, the contractor issuing his liquor at the rate of the excise duty in force, and supplying vendors, at a fixed rate determined by tender over and above this duty; while the right of vend is generally disposed of by auction for each shop sanctioned; (C) The Punjab system where the vendor can procure his liquor from any one of a limited number of licensed distilleries. Here, too, shops are, as a rule, separately sold by auction; (D) The **District Monopoly** system of Bombay. Here the monopoly granted extends to vend as well as to supply, the contracts are given not by competition but by selection, the rates of duty are low, and subject to payment of a minimum guarantee, which is ordinarily covered by the amount of duty paid on issues, and the contractor pays nothing for the privilege of the retail vend.*

A. As regards the first of these systems, it allows the hereditary occupation of distillation to be continued, and thus offers a supply materially similar to what the people have been accustomed to. It also entails in the early stage a minimum of expenditure on Government for purposes of supervision. Finally, it occasions a reduction in price, when the competition is wide spread, when, that is to say, the system is coterminous with the boundaries of a province. But it would not admit of any improvement in the process of manufacture. Storage is difficult, though in the United Provinces a system of bonded warehouse was introduced with some degree of success. The cost of production also cannot admit of economies which would be easy under the system of large scale concentrated production. Its gravest disadvantage, however, seems to be that under that system, the control of distillers' operations and guarantee of quality are out of the question. Hence the Indian Excise Committee recommended :—

> "On these grounds the Committee concur with the Governments concerned in the opinion that the number of distillers and distilleries should be reduced. In those that remain, they would reduce the number of distillers to a selected few by insisting on the separation of manufacture and vend, on the introduction and maintenance of proper plant, and on a stricter system of control." (Report, para. 29.)

B. As to the second system, the contract supply is intended to avoid the dangers of unregulated competition among distillers for the custom of the retailers, by substituting regulated competition in the form of inviting tenders for the privilege of supply at a fixed price per gallon, within specified

* Report of the Indian Excise Committee, Chapter II.

areas, for a given period. In Madras, however, as contradistinguished from Bombay, the Government arrived at the present system by introducing it alongside with the existing private distillery system; with the result that, when the latter was admitted to be a failure, the government was handicapped by the absence of proper number of centres from which the distribution of the supply should take place, as also by the existing predominance of the single firm of distillers, which combined that business with sugar refining and thus was able to pay its way. Government had no adequate buildings for ensuring a well distributed system of factories. In other respects this contract supply has been claimed to offer a supply of liquor at a low and constant price, with the result that the Government can tax that supply accurately and profitably. The distiller, too, secure of his contract, is better able to lay in a store of material and make his calculations on a definite basis; while the retailer can easily calculate the amount of fee that he can afford to pay for his license, since he knows definitely the price at which, within the given period, he would be able to obtain the articles desired. But the system endangers a monopoly of supply; or, in the alternative, compels Government to subsidise smaller distillers and incurs great wastage in the expense of production. The monopoly might be avoided by breaking up the contract units; but that would involve recourse to smaller distilleries which cannot produce as cheaply as the large producer aiming at a monopoly. On the assumption of free competition, the evolution of monopolistic tendencies would be inevitable under such circumstances, unless the Government checks the tendency by keeping up competition, offering a slightly higher rate to the smaller men just enough to cover the absolute expense of production to the latter. The smaller distiller under this system is exposed to the further disadvantage that in the event of a higher bid he may be turned out from his contract in the next succeeding period, and thus have no guarantee for the security of his capital investment, unless, as is now common in Madras, the Government offers a fair chance to the existing distillers, or buys out any one of them at a fair valuation in the event of his falling out of competition. Finally, it is urged against this system, that during the currency of the contract there is no incentive to the almost monopolist contractor to supply good liquor; and though Government prescribe quantity and strength at the time of giving the contract, it is at best a poor guarantee while the contract is in operation. The Report, already cited from, observes:—

> "The system, while far from being perfect, is the best working system of supply that has yet been devised......In the opinion of the Committee the system has successfully stood the test of time, of comparison, and of criticism."

C. The Punjab system is based on the analogy of the English system, which, under certain restrictions and safeguards, allows any person to manufacture spirit, and to sell it to any licensed retailers throughout the province. There is the obvious advantage in this system that the suppliers compete among themselves, and are, therefore, constantly being stimulated to their

best to obtain and retain the custom of the retailers. The quality of the spirit thus offered is likely to be much better than under a system which would create a practical, if not a legal, monopoly. The trade is free from restrictions which have to be imposed in other provinces; and the country spirit market is supplied on equal terms with the spirit manufactured on European principles. On the other hand, the system offers no reasonable guarantee of the proper supply of outlying districts, and is certainly ineffective to control prices in the interest of the consumers, in the event of there being a combination among the producers to keep up the prices.

D. In the District Monopoly system, the contractor is chosen not by competition but by selection, so as to guarantee a minimum consumption and consequently a minimum revenue; and if the minimum is exceeded, he would have to pay the still-head duty at the fixed rates on the excess consumption. The principle of selection in the choice of suppliers guarantees that the business would be in respectable hands; and as the system enlists the help of the supplier on the side of law, it forms an excellent instrument to check unlawful practices on the part of retail vendors. The system is also easy to administer and removes the speculative element in the excise revenue of the province. But for the effective working of this system, it is essential that the minimum guaranteed should represent the natural or normal consumption of the area under contract. If it fails to bring about this correspondence, it would not succeed in making the contractor as active in the interest of the government as in his own. Owing to the difficulty, however, of fixing the minimum guarantee, the contractors tend in practice to become monopolists of manufacture and sale, subject to the payment of a still-head duty. The system also combines the monopoly of manufacture with that of the sale of liquor, and as such is open to serious objections. Though conditions may be imposed upon the contractor at the time of granting the contract, it but too frequently happens that the interest of the contractor leads him to neglect the spirit of the conditions even when he observes them in the letter. Complaints are frequently made that the contractors exceed the fixed prices, that they wink at mal-practices by the retail vendors, maintain no efficient preventive establishments, and that they have failed to prevent illicit distillation.

The recommendations of the Indian Excise Committee, as already shown, favoured the Madras Contract Supply system, which, therefore, replaced the existing systems of Bombay, and improved the systems in the United Provinces, Bengal, Bihar and Orissa, and parts of the Central Provinces. Under all these systems, the main incidents of the tax are similar. The revenue from intoxicant liquors is derived from two main sources: duties on the issues of liquor, and sums paid in respect of the right of retail sale. The right to supply a given area is granted, under the normal arrangements now prevailing all over the country, by contract, thus preventing unrestricted competition and facilitating proper supervision. The restrictions imposed upon the contract help to secure for the Government the

greatest proportion of the monopoly profits. Spirits produced in distilleries pay a still-head duty; out-still spirits are manufactured and sold under a right to that effect obtained by auction. Licenses for manufacture and retail sale account for the bulk of the revenue from country beer, while the toddy consumption is taxed by means of a fixed fee on every tree from which it is intended to draw the liquor, as also the sale by auction of the right to retail vend. Spirits and other fermented liquors, manufactured on European principles, are taxed at the same rate as is levied upon similar articles imported from abroad, the revenue from these import duties being credited to the accounts under the head of Customs, though even in this case, sale license fees have to be added to make up the total excise revenue. In some cases the manufacture of local spirits, *e.g.*, the drawing of toddy, owing to the backward condition of these tracts, is made tax-free or subject to a nominal fee, but exemptions of this nature tend to be restricted. As for the sale of licenses for the right to retail vend, it is accomplished by annual or at most triennial auctions, with the result that the growth of considerable vested interests is prevented and at the same time the highest revenue is secured to the Government. Licenses for the sale of foreign liquor are usually granted on the payment of fixed fees. As for the number and distribution of shops, the Government of India in passing orders on the report of the Indian Excise Committee laid down :—

> "If shops are allowed to be so sparse that each has a practical monopoly over a considerable area, prices will inevitably be raised and illicit practices encouraged.........On the other hand while shops need not necessarily be so limited as to make it impossible for a resident in a particular area to get his liquor except from one particular shop, it should only be possible for him to do so at a cost of considerable inconvenience...........If two or more shops are equally convenient to a number of persons the fact affords what the Government of India would regard as *prima facie* evidence that the number of shops in that particular area is excessive."

Under these orders the local governments were invited to consider the redistribution of the shops in their jurisdiction, and, wherever practicable, to determine the locality and the number of such shops in conformity with local opinion, as voiced by advisory committees set up in every province for the purpose.

Country Spirits

Provinces.	Average Rate of Duty per proof gallon			Number of shops			Consumption (in 1,000 gallons)			Revenue derived (in lakhs of rupees)		
	1906–07	1919–20	1923–24	1906–07	1919–20	1923–24	1906–07	1919–20	1923–24	1906–07	1919–20	1923–24
Madras	4 10 9	8 0 0	9 3 0	11,451	6,107	6,042	1,105	1,697	1,277	69'0	188'90	184'23
Bombay	3 9 1	7 2 7	10 10 3	2,514	1,880	1,631	2,092	2,281	1,534	84'26	223'59	245'40
Sind	4 15 11	7 1 8	10 9 10	293	182	126	196	216	129	10'19	23'15	24'49
Bengal	4 11 10	10 7 2	16 5 2	3,060	1,134	979	458	505	455	33'41	62'29	82'01
United Provinces	2 15 1	6 5 4	10 12 0	5,584	4,003	2,615	868	627	231	36'47	64'81	33'66
Punjab	3 13 7	5 3 2	14 0 5	1,292	666	517	402	782	154	23'98	67'31	37'17
Burma	3 14 6	6 7 9	9 3 7	157	172	183	42	42	58	1'93	4'19	8'97
Central Provinces	2 8 8	8 14 0	14 15 0	5,270	3,525	2,490	794	604	228	44'98	67'23	54'99
Assam	...	4 6 5	4 15 7	...	188	187	...	190	136	...	13'42	11'03
Bihar and Orissa	...	2 15 1	5 12 3	...	1,864	1,729	...	971	768	...	45'24	63'34

These figures epitomise the position not only of the excise revenue, but also of the general policy governing the duty on intoxicants. The above figures, it may be added, have been taken from the report of the Indian Taxation Enquiry Committee, and relate to country liquor only. The rates of duty have in every case been increased, though not uniformly, and the amount of consumption shows a decline in all the provinces. But the curves of the rates of duty charged and of the consumption do not march at all parallel. The official explanation of the increase of consumption in the first decade of this century has already been noted.

It does not seem as though the provinces with the most considerable wealth were taxed at the highest rate. Assuming that the higher the tax the less the chance of increase in consumption, equalisation of the duties or at any rate their increase in proportion to the wealth of a province would add very much to local revenues.

V.—Critique of the Indian Excise Systems

Accepting this explanation, the temperance reformer would still contend that taxation by the Government of India is as far as ever from the ideal of putting down the harmful habits engendered by a false sense of limitation and misconception of the Western civilization. The enormous interest of the Government itself, which now finds a very important and growing source of its income dependent upon the drink traffic, cannot but expose it to some suspicion as to the genuineness of its endeavours to curtail the drink habit and to prevent its spread. This dependence will be all the greater in the new system of financial autonomy in the provinces, under which excise becomes universally a provincial head. It is true the Government of India has not yet accepted officially the ideal of the prohibitionist. But to those who regard prohibition as the ultimate end of the activity of the State in this respect, it cannot but be a matter of regret that the Government should continue to derive, and be dependent increasingly upon, this revenue ; since under those circumstances every proposal for temperance reform, and even for other purposes like education, would be consciously viewed from the standpoint of its effects upon the exchequer.* The financial interest may not be deliberately sought to be made predominant ; and we may also concede that every individual officer, if questioned pointedly, would probably give preference to the social and moral over the purely fiscal considerations. But the danger of adopting measures which would reduce and ultimately destroy a source of revenue now yielding about 10% of the total revenue, and nearly 25% of the provincial revenues and capable moreover of doubling itself every ten years, is so serious that every executive officer is bound to hesitate before approving such measures, however unconscious, however unintentional this regard for financial considerations may be.

Given the influence of revenue in shaping the excise policy of the country, we must admit that within the limits thus set, the efforts of the Government have no doubt been directed to a reduction of the temptations, and thereby also the use of the intoxicating drinks. The table in the margin shows the total number of all kinds of liquor shops in the country which undoubtedly displays a healthy tendency to decline. The reduction in the number of the shops is only indirectly serviceable in the cause of temperance reform, but none the less it is an effective means of combating the evil. Similarly, the reduction of hours during which liquor is available exerts a ten-

Year.	No. of shops of all kinds.	Year.	No. of shops of all kinds.
1901–02 ...	105,080	1913–14 ...	76,484
1902–03 ...	107,741	1914–15 ...	74,422
1903–04 ...	113,374	1915–16 ...	72,267
1904–05 ...	113,116	1916–17 ...	69,001
1905–06 ...	113,312	1917–18 ...	71,952
1906–07 ...	110,286	1918–19 ...	69,744
1907–08 ...	107,002	1919–20 ...	68,046
1908–09 ...	93,355	1920–21 ...	65,039
1909–10 ...	96,516	1921–22 ...	63,547
1910–11 ...	91,066	1922–23 ...	61,802
1911–12 ...	81,221	1923–24 ...	60,231
1912–13 ...	78,152	1924–25 ...	59,121

* In reply to the circular letter addressed by the Government of India in August 1913, the local governments almost unanimously observed that the imputation that the Government officers are guided by revenue considerations in their excise policy is unfounded. In their

[*Continued on page 269.*

dency to reform, or at any rate to minimise temptation to the industrial worker, who must thus get his supply, if at all, within certain hours selected, still, it must be said, not without reference to his convenience. But being limited, they prevent undesirable excess. Legislation, moreover, of the type that was recently passed in Bengal and other provinces prohibiting the sale of drinks to young children has the same healthy tendency, and, to a degree, succeeds in the aim. The policy of a definite prohibition is also now frequently debated in the provinces, and one or two have already announced their determination for an absolute prohibition within a given period.†

The policy of raising the rate of the tax so as to make the drink habit a more costly habit is also pursued with the same object and hence we find a steady increase in the rate of the tax. There is, however, one serious objection why the policy of merely raising the rate of the tax would not, by itself, be enough to restrict and eradicate the vice. The rates as now charged are not only not prohibitive, but they have a tendency to become increasingly less effective in proportion as the economic position of the people improves. Unless the rates are annually revised and raised, the object is not likely to be accomplished, while revenues would grow at such a rate that Government would become more and more unwilling at any time altogether to abolish the drink traffic. It is, of course, difficult to say how far the rates should be raised in any given year ; and whether when raised, there would not be possibilities of evasion of the duty by illicit production, which would be more harmful from every point of view whether fiscal or social. This, in fact, is the greatest difficulty in the way of Reform. And we see no way to remove it, short of an **assumption by the State of complete monopoly of the distillation and sale of liquor.** The profits which now go to the private middlemen will thus be saved and Government will have better records to base their periodical increase in prices.

The establishment of a monopoly in the drink traffic, however, will fail to attain the end in view, unless the alternative forms of intoxicants are

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Concluded from page 268.]

final despatch to the Secretary of State, February 26, 1914, the Government of India write : "We desire to repeat the assertion made in that reply that we can find no evidence that officers aim at securing a large excise revenue through an increased consumption of intoxicants, or that they receive any encouragement to do so from their superiors. Such a procedure would be contrary to the whole spirit of British administration in India, and we fully endorse the Punjab Government's condemnation of these charges as cruel and unjust to the class of officers who form the backbone of our rule in India." This is a strong assertion and yet one wonders if the Government of India do not really delude themselves. Revenue considerations may not be deliberately kept prominent ; but they are bound to influence the judgment of any officer in executive capacity.

† See the report of the Bombay Excise Committee of 1923–24. "The policy which the government should," says this Committee, "lay down in the future, and with as little delay as possible, should be to aim at the total extinction of the consumption of all alcoholic drinks, including toddy, *by suitable steps.*" (Para 109.)

similarly controlled, if not monopolised. Recent reports of the Excise Commissioners note the increase in the issue of cocaine and other more deleterious drugs ; and it is possible to argue that the object of Temperance Reform will not be realisd unless every substitute for alcohol is similarly controlled. In the case of bhang, ganja, toddy, etc. the control is at present exercised only through the system of licensing the shops where these could be sold. Complete and effective monopoly of these forms of intoxicants is not to be thought of for some time to come, though the experiment of the opium monopoly may suggest the possibility, and invite a trial. The position, however; of the Native States, and the possibility of evasion of control or infringement of monopoly from beyond these internal frontiers, must be fully considered before any policy of complete control can be seriously proposed. But making due allowance for all these factors, the statement must be repeated that **the only way to cure the drink evil is to completely monopolise intoxicants of every kind and thereby so raise the price rapidly, progressively, consistently as to make it beyond the power of all but the richest** classes to ruin themselves if absolute prohibition by legislation is not immediately practicable. It is impossible to enter at this stage and in this work into the ethical aspect of the question : whether the Government of India would do well to associate themselves with such a source of the ruin of the people, by making themselves dependent on the revenue derived from this source. While too sudden a break with habits of half-civilised people may undoubtedly cause political anxiety, which no settled Government can be expected to invite if it can be avoided, a full control of the sources and process of production, manufacture, and distribution, is inevitable if the ultimate end is ever to be realised. During the process of the suppression of the habit the state must derive a revenue which may, however, lose all the taint of its origin if the increasing dependence on that revenue is avoided, if the possibility of reproach of trading in the miseries of the people is at all destroyed whether by a monopoly or by license and sale duty. We think it would be really better if that revenue is derived in a form which makes the control of the source all the more feasible.

The remaining portion of the excise revenue, which is relatively insignificant, is derived from hemp-drugs, and opium. The former source of revenue is governed by the recommendations of the hemp-drugs Commission of 1893. As the plant grows practically in every part of the country, the revenue is derived by restricting cultivation under a system of licenses. After the plant has been harvested it is stored in bonded depots ; and before issue of any quantity to licensed vendors a quantitative duty is charged. As in the case of intoxicant liquors, the retail sale of these drugs also is subject to a license fee. While private possession by unlicensed people is prohibited, no restriction is placed, however, on the use of a wild plant in the green state or if it is cultivated for the manufacture of fibre. The rates of duty, which have been raised since 1905-06 vary from Rs. 20 to 40 per seer for "ganja" or cheras. Bhang on the other hand is taxed at much lower rates, in some

provinces by acreage and transport duties only. Licenses which cover the retail sale of all forms of hemp drug are usually sold by auction.*

Before concluding this section, we must, indeed, admit that none of the measures suggested afford quite certainly the guarantee of a complete prohibition. It would be futile to charge the British administration as having increased the drink traffic. In so far as it is the result of imitation, it is voluntary. In so far as it is due to customs of old standing, it is rooted in prejudices and beliefs which have no apparent connection with any given system or personnel of administration. The new ministers in the Provinces will have a score of objects of deserving increase in outlay being pressed upon them to be able to sacrifice this great source of revenue all at once. In the concluding chapter in this part of our work we have suggested certain alternative forms of taxation, which might well replace the more objectionable older taxes.

Tobacco, increment in land values, manipulation of commercial Stamp duties in places like Bombay, may be instanced here to meet a possible counter argument. But when all is said, we fear we can see no immediate prospect of a complete cessation of **excise revenue as an index of the complete stoppage of the drink traffic.** While the latter continues, it would be imprudent to waste the revenues that could be obtained therefrom, it would be suicidal to forego the control over consumption, such as it is possible now. Hence our suggestion for a monopoly, our expectation of an increased yield, our recommendation of making Provincial contributions only out of the increased excise revenues, so that this unwelcome item of expenditure may fare as well, or as badly, as the possibility of increase in this revenue under provincial management.

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* *Ganja* is totally prohibited in Burma, and opium partially. Cheras is similarly prohibited in Madras and Bombay, while Assam prohibits opium. Certain races, like the Todas and the Badagas, or the upper Burmans, have absolutely prohibited spirits. Cp. the Report, para. 227 of the Indian Taxation Enquiry Committee.

The transfer of the Excise department under the new constitution to an Indian minister opens up infinite vistas of speculation as to the future of the drink question. Bar fanatical opposition to intoxicants on religious grounds, there is no fear that the new Indian ministers would be insensible to the claims of revenue in this most difficult question. If absolute prohibition is found utterly impossible and if a certain revenue must continue to be raised from the drink traffic, the Government, under the new dispensation, would find themselves driven to accept the suggestion of monopoly made in this section, as it is the only way to safeguard the larger interests of the community without sacrificing the rights of minorities. There is an obvious guarantee, which local governments, like that of Bombay, could offer to the critics of the prevailing excise policy, by at once doubling the rates of their excise duties, or by raising them to such a figure as would pay the whole of the provincial contribution to the Imperial Exchequer. As this is a feature of the new financial system universally disliked, it will be killing two birds with one stone, if the provincial contribution is thus made problematic.

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Since the above was written in the first edition published in 1921, the ministers in several provinces have made more than one attempt to tackle the problem of absolute prohibition. They have, however, been everywhere frightened away by the financial side of this question, under the double aspect of the loss of revenue, which, with the customs duty on spirituous liquors, aggregates 22 crores per annum; and of the cost of a prohibition establishment, which some people think would amount to a regular standing army (see the Report of the Taxation Committee, para. 227). We are not very much impressed with this argument; but it is interesting to find that the Taxation Committee comes substantially to the same conclusion regarding the best and the most innocuous way of deriving this revenue,—a "managed monopoly"—as in the text above. We, however, prefer a state monopoly in regard to country spirits manufacture.

CHAPTER VIII

Customs Revenue

I.—The Nature of Customs Duties

Considered historically, the system of customs revenue in all its forms seems to have been developed much before the counter system of excise revenue. If we regard the customs duties as consisting of all tolls, dues, or taxes, levied on account of a government, on the import or export of goods from any centre within that government, we shall find these duties a recognised source of the income of the Prince as well as of local governing bodies in India from the earliest times.* In their nature these duties are, like excise duties, a charge on commodities—a tax on consumption. They differ from the latter only so far as they are levied on the **movements** of goods, while excise is levied at some stage in the **manufacture or sale** of the taxed commodity. This difference—though it accounts for a very considerable dissimilarity in the administrative treatment of these two forms of tax revenues—is essentially insignificant. A proper customs tariff, framed with a view to revenue alone, must be adjusted on the same principles that govern the excise revenue. Thus in customs, as in excise, a tax would be productive only if it is levied not only on some selected articles of wide consumption, but also on all the possible commercial substitutes for these articles. But the financial aim of such taxation would be defeated if too many articles are taxed, as such a course would encourage smuggling. It is, therefore, best, from a purely revenue standpoint, to construct the customs tariff out of a few, well-chosen articles of universal consumption, with gradations, if possible, in the rate of the tax according to quality, in order to make the tax more in accordance with the ability of the tax-payer. The purely financial standpoint would also require that all the commodities made subject to customs tariff should, if produced at home, be made liable to an equivalent excise duty to prevent any deflection of industry.

The difference of administrative character between customs and excise duties has led to important distinction in their practical treatment. To prevent evasion of the duty, it is regarded as of cardinal importance that customs should be levied on only those articles which are to be imported

* The fact that the customs revenue does not meet with any prominent mention in the works relating to the ancient history of India, can be explained on the ground that most of these duties were collected by town authorities at the gates of towns, and were usually taken by the local governing bodies. In the shape of transit duties, the Indian customs duties have attracted considerable attention from foreign students; and some of the early wars of the English in Bengal were directly caused by a difference of opinion between the Nawab, and the Company's servants on the question of these duties. In the maritime provinces, like Gujarat, a proper system of customs revenue for the benefit of central Government seems to have developed very early.

or exported over considerable distances, and are of bulky character. Excise revenue is not confined to any such rules.* The need to adjust the tax burden to the wealth of the taxed community demands that the rate of the tax shall be in practice as low as is consistent with the financial interest. This conrse of low initial duties has the additional advantage of making the customs revenue more elastic in yield. In times of emergency, by a mere increase in the rate of the duty on articles of universal consumption, the State can expect to obtain a nearly proportionate increase in revenue.

So far we have assumed that financial considerations alone guide the framing of the customs tariff. Bnt hardly any modern country can pretend to a customs tariff exclusively framed on financial considerations. The unavoidable effects of any customs duties upon a country's industrial organisation have made it a guiding maxim that necessaries of life and materials for industries should, as far as possible, be exempted from such taxation. We need not here interpolate the controversy about free trade and protection, but need only observe that a purely financial cnstoms duty would be as impossible to construct as it would be intolerable to maintain. At the same time, it must be admitted that the basic principle of every protective dnty makes it impossible for that duty to be revenue yielding. To the extent that a protective duty is productive of revenue, it must necessarily be destructive of protection. And, conversely, to the extent that it is protective, it cannot be expected to be productive.† The large place that the customs revenue occupies in the financial systems of the leading countries shows clearly that, despite the professions of the legislators, no existing system realises the ideal of the authors according to their professions.

II.—Kinds of Customs Duties

There have been, speaking historically, three main classes of cnstoms duties :—the so-called **Transit** Duties, the Export Dnties, and the Import

* J. S. Mill (Bk. V., Chapter 6, Art. 2) would tax only those commodities not produced at home at all. But Mill's suggestion was essentially insular, and seems to have been based on the special considerations of the English customs system, where the main items of the cnstoms revenue are not ordinarily producible at home. The suggestion cannot in practice be accepted by other countries which want to tax commodities that they themselves produce in part, or of which they produce marketable substitutes. The school of free trade writers seems to exaggerate the danger of the evasion of customs dues or smuggling, if we are to judge from the recent experience of France and Germany, though the experience of England herself in the matter of smuggling seems to warrant their apprehensions.

† If revenue alone were made the guiding principle of a customs tariff, the rates of dnty wonld have to be based on the Railway analogy of charging what the traffic can bear. The dnties, then, initially low, would have to be gradually increased, till they reached a point on each item which is consistent with the highest imports (or exports) under the tax. If the import (or export) rises in spite of the duty, the rate should be raised: but the increase in the rate may cease if the imports are checked. Such a tariff, widely distributed, wonld yield enormous revenue, and might quite possibly realise the ideal of the single tax, though at an incommensurate cost to the industrial resonrces of the conntry. Conversely, protective duties can be made prohibitive of any competition with the protected commodity with a corresponding increase in preventive establishments to detect and deter smugglers. But in that case the cost to the community in the shape of increased prices, restricted consumption, and artificial direction of indnstry, must also be considered.

Duties.* Of these the first† is now almost entirely discontinued in the leading commercial countries of the world, as exactions of this nature prevent the growth of commerce and the building up of an *Entrepôt* trade in a country otherwise suited for it. In the crudest form, the transit duties are a toll or a tax on the mere movement of goods, without any attempt to see whether the goods taxed are really objects of consumption, or simply passing through a country *en route* to a more distant destination. In this form, it cannot be denied that the transit duties are an indefensible exaction, hostile to the development of commerce. In strict theory, such duties would, in modern states, be impossible to maintain, owing to the mere difficulty of furnishing a suitable administrative organization which would be cheap as well as effective. And the rise in prices resulting from such duties would make them unbearable to the consumer.‡ In the more modern forms of *Octroi*, however, in which a town or city government levies a small charge on the articles brought to the city barriers, and meant to be consumed within the city, or under a system of bonded warehouse, in which the goods sought to be taxed would, in the first instance, be charged the usual duties, and be deposited in warehouses, specially established for the purpose, then, when the goods are re-exported, the duty to be refunded —these duties do not arouse the hostility they once did provoke.§

Public opinion also seems unfavourable to customs duties on export. With the disappearance of the old ideal of a self-sufficing unit, it is but natural that anything which impedes the export of the surplus of a country's produce, and thereby prevents it from offering the best exchange for the products that the country in question itself needs, should be regarded with disfavour. Under the influence of mercantilist ideals, European nations have been trying, for now nearly three hundred years, to increase their exports; and though the inherent weakness of the mercantile system is now pretty generally realised, there is still a strong tendency to favour exports. European writers are, therefore, unanimous in condemning the export duties *en*

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* Bounties to selected industries, in lieu of protective import duties, are classed in the same group as the customs duties in the glossary of the protectionist financier; but such a classification is erroneous, since bounties are a form of public expenditure, not a source of public revenues.

† It is difficult to say what is the origin of those duties. Do they represent an ill-advised exercise of petty feudal sovereignty, or are they to be considered as a just return for services rendered by the state to commerce, such as constructing and maintaining roads and bridges, harbours and docks? If the latter be considered as the true explanation, the transit duties cannot be wholly condemned. As a matter of fact, however, in the age in which these duties were collected, the alleged services were seldom rendered by the sovereigns, and when such services were rendered, almost invariably an extra special charge was levied for the purpose. The modern unfavourable attitude, therefore, as regards these duties has a good justification in history as well as in economics.

‡ That such transit dues are apt to become unbearable to the consumer is most prominently illustrated by the French Revolution and the causes which led to it.

§ India has a considerable system of *Octroi* duties, and so have France and Germany. The system of bonded warehouses and their complement of drawbacks and refunds are now to be found in practically every commercial country. Thus disguised, the transit duties still continue, though there is a pretty general condemnation.

*masse.** It is conceivable, however, that not all export duties would prove equally injurious to the industry of the taxing country. A complete or practical monopoly of a product for which no commercial substitute is found, given rigid demand from all other countries in the world for the article taxed, will make the burden of the tax be borne by the foreign consumers of the commodity.† It is also conceivable that export duties may serve a very useful national purpose, as for instance in conserving the food supply of a country like India, liable to famines. ‡ In fine, it would be premature to condemn all export duties without distinction, without a study of the special circumstances of each case.

However much these older forms of the customs revenue may survive, there can be no question that at the present time the most important form of customs revenue is duties on import. For political and administrative reasons, this form is beginning to be more than ever important. The formation of larger national units by federation or amalgamation has invariably resulted in giving increased powers to the central governments for raising and manipulating the customs revenue chiefly in the form of import duties. And the consolidation of frontiers, with the perfection of the means of supervision and the improvements in the Civil Service, has succeeded in removing to a large extent the old objection based on the possibility of evasion and of illicit traffic. The new importance of the import duties is enhanced by the novel objects governing these duties—considerations of national interests in building up new forms of industry.

Before leaving this subject we may also note briefly the difference in nature and incidence between the duties charged *ad valorem* and those levied specifically. The former are expressed in percentages of the value, the value being either determined by invoices, or from prescribed schedules. The specific duties are charged in given amounts on some stated unit of quantity of each taxed article. This duty is peculiar in this that every time the price of the taxed article falls, the burden of the tax rises and *vice versa.* For purposes of concealed protection, and even for revenue, these duties are often preferred by modern financiers to *ad valorem* duties.

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* The only important countries which now levy any export duty and derive a considerable revenue from it are: Turkey with a uniform tariff of 1% on all exported commodities; India with an open export duty on jute and rice, and a concealed export duty on opium and cotton yarn, the latter being charged under the heading of Excise, the former a transit duty or monopoly price; Brazil on coffee, Philippines on sugar, hemp and tobacco; and Switzerland, Russia, Austria and Italy on some few commodities which are considered monopolies of those countries. During the Boer War, England had recourse to the Coal Export Duty. France abolished her export duties in 1881, and Germany in 1873. India is the only country in which export duties form any considerable portion of the customs revenue.

† Jute, and to some extent opium, from India, and camphor from Japan, supply admirable examples.

‡ Following the Paris Conference of 1915, suggestions were made for the conservation of the raw materials among the allies. One of the suggestions, offered for the consideration of the Indian Government as regards the supply of raw-cotton, took the shape of an export duty as an alternative to a system of licenses. No decision has been taken, but the Indian opinion seems to have been almost wholly against the export duties, and rightly so, though they were naturally preferred to a much more injurious system of licenses.

III.—Considerations in fixing Import Tariffs

With the possible exception of the United Kingdom and the Turkish Republic, none of the principal countries of the world at the present time regulates its customs tariff on imports or exports on an exclusively financial basis. In this respect there seems to be a marked divergence of views between theoretical publicists and practical politicians. Economic writers are for the most part agreed, even when they belong to countries which have frankly accepted other than merely financial principles in the regulation of their import duties, that on an abstract analysis of international trade, such duties appear to be a needless hindrance which diminish the net advantage of such commerce. The imposition of high import duties would no doubt check the import trade, even when the first obvious effect of such duties seems to be merely a diversion of the import trade from manufacture to the production of raw-materials. For in so far as the taxed article is raised in price, there would result some retrenchment in consumption, which would involve restriction of trade.

The case, however, for high import duties, imposed with a view to grant some protection to the local industries, does not deny these obvious inferences from abstract reasoning. The distribution of industries in the world as we know is not based on that ideal assumed by the free trade economist, which, if true, would lead to a great advantage from the growth of foreign trade as resulting naturally from the differences in comparative cost. There could be no occasion for any demand for an artificial stimulus to a country's industry, if the principle of nationality were made extinct; if the regional distribution of population so completely harmonised with their ethnic qualities, as to make the labour of each regional unit employed at the greatest efficiency in the industries climatically or geographically most suited to such a unit. Given, however, the force of nationality, and the virtue of patriotism; given the imperfections or inequalities in industrial development of different units; it is not surprising to find many deep thinkers deliberately ignoring or contravening the inferential disadvantages of a system of artificial stimulus to national industries by means of import duties. It is possible to argue in many a country that an industry, in all ways suited to the natural advantages of that country, may yet be prevented from developing in that country for want of the necessary knowledge and experience among the people. Such a defect would never be remedied under a system of free competition from other countries, who have managed, purely by historical accidents, to develop the same industry to a much higher stage of perfection.* In such a case protective import duties, by making competition with the protected industry harder, afford an opportunity to foster such industry. Such a process of national industrial development no doubt occasions a temporary loss in the shape of increased prices, as also in the inevitable alterations in the employment of industrial capital and labour.

* See the section on Tariffs in the present writer's *Trade, Tariffs and Transport in India.*

But granting the fact of that loss, it may yet be claimed that the compensation from an all round development of the country's industry would more than set off the loss.

This case for a scientific protection has now become classic. The inherent limitations of such a case it would be futile to ignore. It is in the best sense only a **temporary** expedient, since the underlying assumption of such a case is that the industry protected is capable of developing, if only in its initial stage it is guarded against unfair competition.* The necessary corollary of this assumption requires that when the protected industry has reached a stage when it no longer needs artificial stimulus, the aid once given to it must be taken away. The sacrifice involved in every system of protection would have been thrown away if after the experimental stage the protected industry still continues to demand protection. One of the most difficult problems which the protectionist has to face in practical life is to make a wise selection of the industries sought to be protected. The limitation of our information as to the suitability or possibility of a given industry, the existence of other than purely economic factors warping the judgment of the protectionist and influencing his policy, make it very hard to select wisely, and to protect properly, the suitable industries. Moreover, the essentially temporary character of scientific or justifiable protection demands a removal of the duties when their object has been served. But in practice almost all the chief protectionist countries have found this an impossible condition, owing to the growth of vested interests.† Scientific protection must also involve some loss or sacrifice.

*Cp. the Report of the Indian Fiscal Commission, para. 55—

"We recommend in the best interests of India the adoption of a policy of protection to be applied with discrimination along the lines indicated in this report." The lines are elaborated in para. 97, which says:—

"(1) The indnstry must be one possessing natural advantages, snch as an abundant raw material, cheap power, a sufficient supply of labour, or a large home market.

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(2) The industry must be one which withont the help of protection is either not likely to develop at all, or is not likely to develop so rapidly as is desirable in the interests of the country.

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(3) The industry must be one which wonld eventually be able to face world competition withont protection." And in para. 120 the (majority) Report further adds:—"When protectionist considerations do not arise, we see no reason why the Government should not impose revenne taxes in accordance with the recognised principles which govern such taxation."

† The experience of the United States of America and the German Empire is more interesting in these respects, as both these countries, working on entirely independent grounds, have evolved practically identical conditions of industrial organisation, which simultaneously proves the accuracy of the arguments for scientific protection and the practical difficulties involved. (See Grünzel, *Economic Protectionism*). Prof. Adams in his work on "*Finance*" thns sums up the contrast between the theory and practice of protection. (Page 417). "In theory protection does not become a source of positive advantage until it gives place to freedom of commerce. In fact, after a nation has once tasted the stimulus of protection, commercial freedom is either impossible of attainment, or can be attained only through a struggle so great as to mark an epoch in financial legislation. In theory, protective duties should be high when first imposed, and decline as nations learn the lesson of mannfacturing skill. In fact, they begin with a moderate charge and raise it higher and higher each succeeding year. In theory, the burden of protection, that is to say, the cost of the nation's industrial education, is borne by the agricultural industry............In practice, especially where Government rests upon popular favour.........the policy of protection quickly drifts into the illogical and self-destructive policy of an all-round protection."

The nation desiring protection must make up its mind to bear this loss, and treat it as an unavoidable or necessary expense for educating its people to the desired pitch of manufacturing skill. Such a view of the sacrifice involved would pass unchallenged, if both the loss and the gain were truly national and evenly distributed. But in practice it not infrequently happens that the loss is borne by one section, the consumers only; and the gain goes almost wholly to the much smaller section of the producers. The specious argument that protection creates more profitable employment may be adequate to entrap the ordinary workmen, who see the immediate rise in wages, and have not foresight enough to consider the counter-balancing effects of a rise in the cost of living which results from the same cause. At first sight, it would appear as though successful protection, by establishing new industries, helps to create additional employment. But such a belief is impossible if it means that the total volume of employment in the country is increased. What successful protection can really accomplish is a change in the nature of employment from poor to more paying channels; it cannot add to the total volume of employment.* The working classes, as a rule, do not realise this; and they are, therefore, instinctively protectionist.† The same also applies to the other argument of the protectionists in answering the charge of costliness or wastefulness of their programme. It is possible to make the foreigner bear the cost of protectionist duties. It is conceivable, no doubt, that an importing country, in a situation of exceptional strength, having practically a buyer's monopoly of demand, may be able to ward off that burden of the import duties.‡ But in that case, to the extent that the burden of import duties falls upon the foreigner, the duties would fail

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* The American protectionists have often argued as though in their case the protective tariff had actually succeeded in adding to the volume of employment. The increase of population simultaneously with a rise in wages in the States is an evidence of the yet inadequately exploited resources of the country, and not of the ability of protective tariffs to create something out of nothing. The high wages may also be explained on the ground of increased efficiency, in so far as the high wages are not explained by an increased cost of living.

† The only exception to this rule is that of the English working classes, the majority of which have been free traders. But the explanation of this exception is probably to be found in English workmen thinking more of their lot as consumers than as producers, in which capacity for a long time they feared no rivals.

‡Professor Plehn mentions the following five instructive cases, in which the burden of import duties might be borne by the foreign producer: (A). When the amount of the commodity produced in the country laying the tax is sufficient in quantity to entirely supply the home market, and to fix the price very close to the cost of production, while the foreigner has at the same time so large a supply that he must enter that market to dispose of it. A common instance of this is the case of rye in Germany in good years. (B) When a new tax is laid on goods produced with the aid of large fixed plant for a limited market which would be lost if the price is raised. As long as the producer is unable to change the character of the plant he must pay that tax; for example, iron products from the Rhine to be sold to Sheffield. (C) In the case of commodities which are used only as substitutes for something else, because they are cheaper, which would not—if the prices are higher than that of the commodity for which they are used—be consumed at all, *e. g.* rye in Germany when wheat is cheap. (D) In the case of commodities a large part of whose total consumption is produced in the country, but not enough to fix the price absolutely, which is still above the cost of production. The foreigner in that case would pay part of the tax if his entry depresses the price. (E) The speculator regularly pays the tax when the commodity is massed in warehouses on the border for importation on a rise of prices, and on being imported in large masses depresses the price.

in their original object* of being protective; for the only way in which the burden can be borne by the foreigner is a fall in price. And if a fall in price does not arrest the imports, the tax on imports cannot be said to be protective. The greatest danger to the industry of a country from a systematic adoption of scientific protection, however, is the likelihood of a permanent weakening of industrial position in the protected country. Tariff aid, instead of being a temporary and costly expedient, becomes in many cases the normal condition of the industry of that land, thereby undermining and enervating the whole position of industry. The enervating force is all the more apparent in a small country, where domestic competition is not sufficiently strong to supply the necessary stimulus which automatically compels an industry to keep abreast of the times.

If these necessary limitations of scientific protection are reorganised and appreciated, there is no reason why a country, ambitious of industrial development, should not resort to it. Recent experiences of great industrial countries have shown that import duties are not the only means of protecting one's country's industries. If the cost involved in the protectionist experiment is accepted as an unavoidable price of national development, the protection required may perhaps be more appropriately given in the shape of **bounties** or direct **subsidies** to selected industries than in the shape of import duties. The two last mentioned methods have a distinct advantage over the more common expedient of import duties. They make palpably evident the essentially costly nature of the protectionist experiment, by making the subsidies and bounties a direct charge on the national revenue, instead of an apparent gain which the import duties suggest. The consciousness of the burden will provide its own remedy. Besides, as the bounties are given only to selected industries, admittedly of national importance, they would prevent the creation of all-round vested interests which import duties bring about. They will also be free from the usual objection of the cost to the consumer involved in a rise of prices following upon the imposition of an import duty for protective purposes. On the other hand, bounties being directly paid out of the central exchequer, they would naturally depend for continuance on the flourishing state of the country's finances. As such they would be unsuitable for new and struggling industries, where the entrepreneur cannot base his calculations of profit on a definite factor. To the extent that bounties are needed by an industry, they would mean a gift to the foreigner, for without the bounty there would be no exports *ex hypothesi*. If the belief in the future of the bounty-fed industry is well-founded, the bounties ought to be progressively reduced, and thus remove an unfair advantage given to one section of the people. Even in the case of import duties, the problem of granting protection with the least risk of waste of national resources often requires a most minute adjustment of the scale of duties to the cost of production, to the various classes of the same articles,

* We cannot add many specific instances of a buyer's monopoly, unless it were the case of tea in England, where the tax is not conceived in a spirit of protection. For the above cases compare Plehn: *Introduction to Public Finance*.

to the most delicate distinction between the rival claims of specific or *ad valorem* duties.

But even now the problem of defining the objects of a country's customs tariff is not over. We have yet to examine the more radical question of customs policy, to reconcile the claims of nationality with those of world commerce; to show, if possible, that the gain of the producer need not necessarily spell the loss of the consumer. The rapid conversion of a number of the leading countries in the closing decades of the last century to a policy of protection, in spite of the limitations of such a policy, was as much the result of political as of economic considerations. A general adoption of protection indiscriminately must, apart altogether from an unhealthy attitude engendering universal suspicion and unprofitable retaliation, result in a waste of the world's resources, owing to a misdirection of capital and labour due to the desire of a forced industrial development. The rise in prices, which must also follow in the wake of such a course, cannot but exhibit the resulting hostility between the interests of producers and consumers. If it is sought to avoid this last consequence by attempting to regulate the industry protected and fix the price, the state would soon find an effectual limit to its exertions. Without any ability to offer an alternative supply such an effort must fail.* The only remedy to bring about the fullest development of each country's resources, without injuring the interests of consumers, or causing a wanton retaliation, is, in our opinion, for the state to take upon itself the task of production, or at least its regulation. If the units of the League of Nations become competitive producers, the classic principle of the comparative costs would automatically assert itself, as in that case the confidence of equality would help to banish all suspicion of ulterior designs. International commerce would then follow the natural line of a territorial division of labour, the exchange between the trading nations being effected on the collectivist basis, and governed by treaties taking the place of innumerable individual contracts. The element of any undue or unearned profit in international exchange would disappear, almost in the same way that the element of such profit has been eliminated in the exchange between the co-operative wholesale societies trading with one another though situated in different lands. The collective control of national production would also render the task of regulating the price according to the cost of production more easy, thus avoiding the present divergence of interest between consumers and producers. Recent events in many countries seem to show that such a consummation is by no means unlikely. In any case unless some such arrangement is arrived at, mistaken protection in national interests would be unavoidable from ambitious nations, bringing in its train all the undesirable consequences of distrust, retaliation, and waste to which we have already referred.†

* The emanance of profiteering even in the apparently controlled industries during war time is an instance of the utility of such control.

† See, however, on the subject matter of the whole of this section, the present writer's *Trade, Tariffs and Transport in India*, Part III, particularly Chs. X and XII.

IV.—A Brief History of the Indian Customs Revenue

At the time of the Mutiny the customs policy of the Company laid the entire trade of India in either direction under contribution. Without going into needless details it may be said that all the principal articles of import and export were taxed—the former at the general rate of 3½% on raw produce and 5% on manufactured goods, the rates being doubled in the case of goods coming from countries other than the United Kingdom. Mr. Wilson in his first budget proposed to raise the general import tariff to 10% (1859–60) subject to the exception in the case of some important articles which were to be taxed at 20%.* At the same time the differential rates were abolished. This tariff was revised in 1864, when the general duty was reduced to 7½% *ad valorem* and cotton goods to 5%, and again in 1867 when the list of articles admitted free of duty was enlarged. Meanwhile a committee had been appointed to discuss the whole question of the tariff policy. And, following their recommendations, the whole tariff was recast in 1875, reducing the general rate of import duty to 5%, and effecting a much needed revision in values for the purpose of adjusting the tax.†

From 1875 to 1900 the Indian customs policy became the subject of a violent controversy between doctrinaire free traders and passionate protectionists; and in consequence there were frequent changes. The ruling caste, taking their cue from the prominent British statesmen, adopted an attitude of uncompromising freedom in trade, irrespective of India's economic or financial interests. The Indian public opinion of the day, such as it was, was gradually driven by the sheer intolerance of the rulers in their

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* The chief articles excepted from the general 10% rule, and made liable to the import duty of 20% were tobacco, beer, wines, and spirits. Wilson thus sums up the effect of these proposals:

	£
Loss on 20% duties	30,000
Loss of articles freed	52,000
Total ...	82,000

The first free list included wool, hemp, hides, jute, flax, tea, books, prints, maps, and works of art.

† The following table shows the list of articles taxed and the rate of duties in 1875.

Import Duties

1.	Apparel, arms, candles, carriages, clocks, cotton, cabinet, ware etc.	7½%
2.	Cotton twist	3½%
3.	Piece-goods	5 %
4.	Medicines	7½%
5.	Coloured materials	7½%
6.	Fruits, glass, skins, jewels, ivory, leather	7½%
7.	Beer specific duty per gallon ...	1½%
8.	Spirits do. do. ...	6/s
9.	Wine do. do. ...	3/s
10.	Iron	1 %
11.	Other materials	7½%
12.	Naval stores, oils, paints, perfumes, porcelain, provisions and oilman stores	7½%
13.	Silk	7½%
14.	Sugar	7½%
15.	Tobacco	10%
	Woolen piece-goods... ...	5%

Export Duties

1.	Cotton goods, oils, seeds and spices, and hides	3 %
2.	Shellac and lac dye	4 %
3.	Grain specific duty per maund	4½%
4.	Indigo do. do. ...	6½s.

R. C. Dutt's '*India in the Victorian age*' p. 338.

second-hand exposition of the free trade principles, to an attitude of equally unyielding protectionism.* Suspicions of selfish interests of the English electorate, chiefly of the Lancashire vote which no English Government could afford to defy and yet survive in office, were freely alleged to be more effective in shaping the Indian tariff policy than any real belief in the sacrosanct principles of free trade. Be that as it may, the Government of India embarked, from 1878, upon a policy of the remission or reduction of the customs duties with a view to establish an ideal freedom of trade; and though the heavy fall in the exchange value of the rupee and the sharp increase in expenditure did not permit them to realise completely their ideal, they approached by 1897 as near it as they dared, in the then condition of the country's finances, despite the protests of the Indian leaders. The first step in the new direction was taken in 1875, which was to impose a duty on cotton containing yarn not finer than 30's if similar in character to goods already produced at home. At the same time railway material was exempted from import duty, and 26 other minor articles were placed on the free list. As there was very little difference between the cotton goods which were exempted and those which were still liable to be taxed, in 1879 all cotton goods containing yarn not finer than 30's were exempted from duty at a sacrifice of 20 lakhs. But the cotton goods were the principal source of customs revenue;† and if they were to be exempted, there was no sense in maintaining other import duties which were likely to be more vexatious than profitable. The prosperous condition of the finances enabled the Government of Lord Ripon to abolish, in 1882, the remaining cotton duties and the rest of the general import tariff‡ with the exception of the duty

* For a clear exposition of the customs policy of the Government of India see Strachey's "*Finances and Public Works in India*," Chapter XV, and the budget speeches of Lord Lytton and Sir J. Strachey in 1878 and 1879. The extract from Lord Salisbury's despatch given in an Appendix to Strachey's op. cit. p. 297 *et seq.* are as interesting as the following resolution of the House of Commons, indicating the English view of the question :—

(*a*) That in the opinion of this House the duties now levied upon cotton manufactures imported into India, being protective in their nature, are contrary to sound commercial policy, and ought to be repealed without delay so soon as the financial condition of India will permit." (July 11, 1877).

The general principles governing the customs policy were thus enunciated by Strachey: (1) No duty should exist which affords protection to native industry; no duty should be applied to any article which can be produced at home without an equivalent duty of excise on the home production; no duty should be levied except for purely fiscal purposes. (2) As far as possible raw materials of industry and articles contributing to production should be exempt from customs taxation. (3) Duties should be only applied to articles which yield a revenue of sufficient importance to justify such an interference with trade. (4) Export duties should be levied only on those articles of which the exporting country has a monopoly of production.

†Sir J. Strachey, in the financial statement for 1878–79 said the total gross customs revenue amounted in 1876–77 to £4,098,296 net. Of this amount, salt import duty accounted for £2,491,010, leaving £1,607,286 for customs proper. Out of these, cotton duties amounted to £811,340 or more than 50% of the whole customs revenue,—a serious item to sacrifice in the face of the known difficulties of those years.

‡The remission in 1882–83 was perhaps less open to criticism even on financial grounds than the similar action of 1878 and 1879. In the earlier years war and famine had combined to make additional taxation inevitable. The remission of any existing item, particularly the productive item of cotton duties, was objectionable as much on financial as on fiscal or economic grounds. In the later year, there was prosperity inside; revenue

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on arms and liquor. With the exception of a duty of half anna per gallon on petroleum, no other import duties were imposed between 1882-1894.

Ever since the sixties, owing to the impetus given by the American Civil War, India had witnessed a continued growth of cotton industry organised on the basis of the latest mechanical improvements. By the eighties the Indian mills had begun to meet the local demands to a quite appreciable degree. But the industry was seriously handicapped in the early years by the competition of Lancashire which had attained a far higher stage of development. The advantage of Indian mills in commanding cheap labour was more than off-set by the inefficiency of that labour; while the advantage of English mills in having command of much superior raw material in America had no counterpart in India. The small duty of 5% which the cotton manufactures of England paid into India could not possibly have any protective effect on the Indian industry. Nevertheless the strong Lancashire vote exerted a continued pressure on the English cabinet to force the Indian Government to remove the Indian duties; and in spite of great famines, wars, and a falling rupee, the Government of India had at last to obey. But the success of the Lancashire agitation naturally aroused suspicion in the Indian mind as to whether the anxiety on the part of the English agitators for a removal of the import duties in India was really the outcome of a genuine belief in the advantages of free trade; or whether, by any chance, it was the result of the selfish apprehensions of a rival industry. We find, therefore, the greatest struggle in the tariff history of India centring round the cotton duties. In 1894-95, the heavy fall in the exchange value of the rupee brought the Government face to face with a deficit of Rs. 168 lakhs, the only way to adjust which was the restoration of a general 5% import tariff; the duty on petroleum was at the same time doubled. But, submissive to English pressure, the Indian Government excluded the cotton goods and fabrics from the import tariff, so that the net gain from these changes was Rs. 120 lakhs, leaving still a deficit of nearly 50 lakhs, which rose to a crore by December 1894. Cotton goods could no longer be excluded, as they were the principal source of the customs revenue; but, lest the imposition of the small 5% duty should give any the slightest protection to the Indian industry, a **countervailing excise duty** at the same rate (5%) was imposed on all cotton yarns of 20's produced in Indian mills,

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and expenditure, after balancing, had left a surplus. Salt duties were reduced. The decision of the Government did not, therefore, seem so flagrantly in opposition to Indian interests as the earlier decision had been.

There were the old sugar duties most obnoxious from financial as well as from economic stand-points which were abolished in 1878-79. The countervailing duties were in addition to the general five per cent. duty, and that remained after the countervailing duties were abolished.

In this connection it would be interesting to observe that Indians are not alone in regarding the Indian tariff changes as being dictated by selfish English interests. Lord Northbrook resigned his Viceroyalty rather than submit to this unfair pressure. Lord Lytton carried the changes by the exercise of the extraordinary power of overruling the majority of his council. The minutes of dissent were extremely sound. (See Strachey op. cit. p. 247.)

the small production of the hand-loom industry being excluded. But still the English interests were not satisfied, as some English exports were of lower counts, and the English goods paid duty on the completed value while the Indian mills paid only on the yarn value. Hence, in February 1896, cotton twist and yarns of all kinds were exempted from import duty, and a uniform duty of 3½% was imposed on the woven goods of all counts, whether imported or manufactured in Indian mills. These changes were naturally construed by India as extremely prejudicial to the local industry, and they have left imperishable memories of a bitter wrong.* The cotton duties thus fixed remained unchanged till 1917, when the cotton imports were made liable to the new general tariff of 7½%, while the question of the countervailing excise was left as before.† The general rate was raised to 11% in 1921, and to 15% in 1922, when, however, the cotton goods were left untouched at 11%.

The only other interesting item in the tariff history of India is the countervailing duty on the bounty-fed sugar. Imposed for the first time in March 1899, it was meant to check the imports from countries which were giving artificial encouragement to the sugar industry. The imports were in the next two years not much affected, though the revenue in 1900-02 was 7 lakhs: and so the rate was raised in 1902-03 to prevent the artificial underselling of beet sugar. But following the sugar convention of 1903, the duty was reduced. The tariff changes made in 1916 made sugar taxable at 10%, the rate being further enhanced for revenue purposes in 1921, and once again in 1924, when it was fixed at 30%.

The free list, as fixed in 1882, was revised in 1894, when a low duty of 1% was imposed on iron and steel goods, while tobacco was added in 1896 to the list of goods which paid a comparatively high duty. Machinery, other than that used in cotton mills, as well as other iron and steel goods were charged 2½% from 1916. This rate was left undisturbed in 1921, when the duties on sugar, liquors and tobacco were enhanced, and a heavy specific duty was imposed on matches. At the same time motor-cars, silk goods, watches, etc., were placed in a class of luxury goods by themselves, and charged 20% to be raised to 30%, the following year, when the duties on

* The customs revenue from cotton goods was Rs. 116 lakhs, in 1895-96, and averaged 87 lakhs in the next five years. The excise duty on cotton was 6 lakhs in 1895-96 and rose to 18 lakhs in 1902-03 and to nearly 2 crores at the time of its abolition in December 1925.

† In the first tariff changes made during the war cotton manufactures were left untouched (1916). For this reason "The council will naturally ask why, at a time when fiscal necessity compels us to make a material enhancement of the tariff in nearly every other direction, we should leave cotton alone. Well, the Government of India have not failed to represent their view that there should be a material increase in the cotton import duties, while the cotton excise, which has formed the subject of such widespread criticism in this country, should be left unenhanced, subject to the possibility of being altogether abolished when financial circumstances are more favourable. But His Majesty's Government, who have to consider the position from a wider standpoint, felt that the raising of this question at the present time would be most unfortunate......His Majesty's Government feel that the fiscal relationship of all parts of the Empire as between one another and the rest of the world must be reconsidered after the war, and they desire to leave the question raised by the cotton duties to be considered then in connection with the general fiscal policy which may be thought best for the Empire." (Para. 46).

matches and tobacco were further increased, and the general rate was raised to 15%. Iron and steel goods and railway material were charged 10% from 1922, but machinery was not allowed by the Assembly to be charged the same rate though proposed by Government.

In 1910 the imports of silver coin and bullion were taxed at 10%.

The only important export duty, before 1916, was that on rice at the rate of 3 as. per 82 lbs. During the war additional export duties have been imposed on jute, tea and indigo, the earlier tea duty of 1903 being a special collection exclusively reserved for the benefit of the tea-trade. In 1919 a tax was placed on the export of hides and skins at 10%,—not entirely for revenue reasons. Tea, lac and cotton are also liable to certain small export cesses intended rather for the benefit of the industry than for an advantage to the exchequer.

V.—Present Position in the Indian Customs Tariff

At the present time, then, the customs schedule consists mainly of (1) a general *ad valorem* rate of 15%, with cotton goods charged a special rate of 11%, and machinery and iron and steel goods of all sorts being charged another special rate of 10%. Sugar is treated by itself, and charged Rs. 4½ per cwt., or 25% on molasses and candy for the combined purpose of revenue and protection to the indigenous industry; while motor-cars, watches, silver plate, musical instruments, gun powder and certain arms and ammunition, and silk goods are treated as luxury goods, and charged 30% as such. Matches are charged specific duties, while tobacco and spirits are treated specially for a high charge, liquors and wines being charged a specific rate of from Rs. 21–10–0 to Rs. 30 per imperial gallon or 15% *ad valorem*, whichever is higher, wines being Rs. 9 per gallon on sparkling wines, and Rs. 4½ on still wines containing not more than 42% of proof spirit. In the case of tobacco, cigars are charged 75%, cigarettes of Rs. 7½ per thousand in value @ Rs. 7½ per thousand, and for those exceeding Rs. 10½ per thousand in value @ Rs. 10½ per thousand; unmanufactured tobacco is charged @ Re. 1 per lb., and manufactured tobacco, other than cigars and cigarettes, is charged @ Rs. 2½ per lb. Some articles, like agricultural implements, raw cotton and certain medicines, like anti-plague serum, are admitted free, while a small duty of 2½% is charged on articles like component parts of machinery, or firewood. Coal coke and patent fuel is charged Re. 0–8–0 per ton. Railway track material is charged specific duties, as also many kinds of iron and steel goods. Cotton twist and yarn and sewing thread is charged 5%. Matches are charged Rs. 1½ per gross of boxes each containing not more than 100 matches, and Re. 0–6–0 per gross of boxes each containing more than 100 matches. Works of art are generally free, as also trade catalogues; but pictures, prints and engravings are charged 30%, as also toys and games of all kinds. Export duties are charged on raw jute, (Rs. 4½ per bale on other description, and Re. 1¼ on cuttings per bale) and jute manufactures (sacking

Rs. 20 per ton, and hessians Rs. 32 per ton); rice, 3 annas per Bengal maund, tea Rs. 1½ per 100 lbs., and hides and skins @ 5%.

The import schedule is divided into 149 main heads, with a fairly detailed list of sub-heads, and with some attention to minute particularisation, though, even now, the Indian tariff schedule is far from approaching some of the more scientific schedules of Germany, France or the United States. On the export side, there are 6 main heads, and a number of sub-heads, with not at all the minute description and classification noticeable on the import side.

There are also certain excise duties, *e.g.*, that on motor spirit, which are also credited under customs.

In many cases the *ad valorem* duty is charged on a prescribed valuation for tariff purposes, which may work out at a very low percentage in rising prices; in a few others the duty is charged according to shipping documents. The export duties are all specific, which are easier to collect, and, being low, are not very burdensome, though they are by no means all on absolute or virtual monopolies.

† Table showing the growth of customs revenue in India:—

Year.	Gross Customs Revenue.	Expenditure.	Year.	Gross Customs Revenue.	Expenditure.
	Rs.	Rs.		Rs.	Rs.
1860-61 ...	2,96,56,080	16,28,330	1912-13 ...	10,79,58,640	38,59,322
1861-62 ...	2,87,81,390	24,35,470	1913-14 ...	11,33,73,302	39,18,784
1871-72 ...	2,57,59,900	18,49,210	1914-15 ...	9,52,08,010	39,64,180
1881-82 ...	2,53,96,120	19,89,270	1915-16 ...	8,81,08,293	39,33,963
1891-92 ...	1,70,12,880	13,63,630	1916-17 ...	12,98,87,728	40,67,458
1901-02 ...	5,74,95,285	24,22,125	1917-18 ...	16,55,48,819	42,79,138
1902-03 ...	5,99,64,540	24,20,040	1918-19 ...	18,18,09,614	45,47,587
1903-04 ...	5,94,94,470	25,24,470	1919-20 ...	22,48,32,802	72,72,260
1904-05 ...	6,54,26,665	26,88,600	1920-21 ...	31,89,85,157	56,62,957
1905-06 ...	6,52,20,255	27,36,885	1921-22 ...	34,40,98,381	65,87,632
1906-07 ...	6,52,75,380	30,07,260	1922-23 ...	41,34,65,362	70,62,000
1907-08 ...	7,50,77,410	30,97,170	1923-24 ...	39,69,64,296	71,35,688
1908-09 ...	7,24,83,960	31,35,345	1924-25 ...	45,75,31,516	77,12,290
1909-10 ...	7,44,76,770	32,61,425	1925-26 R. E.	46,84,57,000	82,80,000
1910-11 ...	9,92,85,135	35,93,490	1926-27 B. E.	46,40,00,000	85,85,000
1911-12 ...	9,70,28,499	37,60,700			

* The export duty on jute and tea, first levied in 1916, was doubled in 1917.

† The charges for the collection of the Customs revenue consisted in 1924-25 of the follwing :—

	Rs.
Collection charges at the chief ports	61,65,155
Charges at other ports	5,21,904
Cotton Excise establishment	56,979
Assignments and compensations...	6,04,275
Land Customs charges	1,64,864
Charges in England	1,99,113
Total ...	71,12,290

[*Continued on p.* 287

The table below gives a detailed analysis of the total customs revenue of the Government of India.

Article and duty Sea customs. Imports.	Accounts 1924–25 Rs.
Special ammunition duty—	
1. Arms ammunition & military stores	8,64,114
2. Coal coke and patent fuel	2,83,111
3. Matches and match splints	1,25,88,053
4. Liquors	2,50,32,199
5. Opium	2,955
6. Mineral Oils	1,43,38,916
7. Sugar	5,76,90,152
8. Tobacco	1,73,72,072
9. Articles of food and drink (excluding sugar and vinegar)	1,39,14,960
10. Raw materials	63,87,976
11. Manufactures—	
(a) Cotton piece-goods ...	7,73,76,171
(b) „ Yarn and thread	51,40,983
(c) Other manufactures ...	8,31,78,639
12. Machinery	42,78,577
13. Metals iron and steel ...	84,11,602
14. Railway stock	47,49,352
15. Other articles	1,64,599
16. Export duty —	
(a) Hides and skins ...	26,75,238
(b) Jute	3,75,63,920
(c) Rice	1,23,97,306
(d) Tea	49,11,773
17. Government stores ...	5,15,140
18. Sea Customs Miscellaneous	13,49,806
19. Land Customs	20,84,026

Article and duty Sea customs. Imports.	Amount 1924–25 Rs.
20. Cotton Excise	2,17,66,893
21. Motor Spirit Excise ...	78,85,870
22. Kerosine Excise	98,39,446
23. Duty @ 30 %—	
Motor cars and cycles ...	79,43,505
Pneumatic rubber tyres & tubes	27,69,333
Silk piece-goods and manufactures	90,04,500
Other artiles	98,58,878
24. Special protective duty—	
Iron and steel	2,15,32,400
Coal tubs	1,44,074
Railway track material ...	9,00,720
Locomotives	9,790
Other articles	1,15,956
25. Duty on Government stores—	
State Railway plant ...	7,19,695
Other stores	53,08,808
26. Warehouse and Wharf-rents	55,006
27. Miscellaneous	4,73,802
Total gross customs revenue ...	49,10,87,823
Less refunds ...	3,35,56,307
Total customs revenue ...	45,75,31,516
Charges of collection ...	77,12,290
Total net customs revenue ...	44,98,19,226

VI.—Critique of the Indian Tariff Policy

After the brief sketch of the evolution and present condition of the Indian tariff policy, we shall now proceed to discuss the basis of that policy. For a proper understanding of our criticism, the table in the foot-note on p. 288 is very instructive. It gives the principal imports into the Indian market in four columns, being the quinquennial averages of the pre-war and the war period, and the last year of the war 1918–19 and 1924–25, together with the amount of revenue drawn from these sources for 1913–14 and 1918–19

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The establishment charges take no account of the non-effective charges of pensions, &c. The present cost of collection works out at some 2%, while the corresponding charges in the excise revenue amount to 6% or more. It may also be noted that certain excise receipts are also credited under the head of customs even after the abolition of the cotton excise duty in 1925. The income side includes warehouse and wharf rents (Rs. 55,000) and miscellaneous dues (Rs. 4,73,802); refunds amount to Rs. 3·35 crores, but do not include the import duty on salt.

and 1924–25. The comparison is *not* quite free from objection in every respect, as the rise of prices materially affects the figure on the import side, while the changes in the tariffs made in 1916 and 1917 affect the revenue figures. Allowing, however, for these factors the figures are still instructive.

From the foregoing tables it would be clear that, with the exceptions of sugar and iron and steel goods specially protected in recent years, the Indian Tariff is mainly a revenue tariff. Import duties are levied chiefly on those articles which are either not produced at home in India, or which are in the nature of luxury goods. But the theory of specially heavy taxation of luxury goods as evidencing greater ability to bear the burden is not carried out to its logical conclusion, especially in such uniform taxation as the 11% duty on all cotton goods irrespective of quality. Export duties are levied either because India has practically a producer's monopoly of the taxed article (Jute), or because, though possessing no monopoly, the demand for the article is so great as to make the tax fall partly at least on our foreign customers. Raw materials for industry, and the necessary mechanical aids and equipments are either admitted free or taxed very lightly. In such a system it would be impossible to look for any but the financial motives in the tax adjustment, the various classification and definitions in the tariff schedules being only for purposes of administrative convenience. Speaking generally, we may say that under the latest estimates, the manufactured articles pay 60% of the total import duties, while non-mafactures pay 40%. It must be admitted that judging from the trade figures, the general policy, now prevailing for half a century has not proved so injurious to India as

(In thousands of rupees)

Articles of Imports.	Pre-War Average 1909-13-14	War Average 1914-19	1918-19	1924-25	Customs Revenue. 1913-14	1918-19	1924-25
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cotton goods	48,40,85	47,43,31	51,68,85	72,66,20	21,29,42,39	3,85,00,000	77,37,61,71
,, Yarn...	3,77,18	4,94,79	8,86,68	9,66,31	for all ma-	1.66,50,030	5,14,09,83
Sugar ...	13,16,58	4,17,48	15,61,36	20,20,24	nufactures	1,76,50,000	57,69,01,52
Iron and steel	11,17,45	9,61,00	12,44,99	18,93,23	Rs.	25,50,000	29,94,40,02
Railway Plant and Stock ...	6,10,94	3,48,19	5,85,24	14,74,97		1,20,00,00	4,27,85,77
Machinery & Building ...	3,94,54	3,93,14	4,74,94	3,71,20	1,37,74		9.00,46,00
Silk	2,12,73	3,42,25	4,21,96	2,08,83	1,84,11,75		
Chemicals Drugs &c. ...	3,72,03	4,02,30	3,51,32	8,35,11	7,24,89,41	12,000	14,33,89,16
Mineral oil...	2,04,46	2,36,64	3,3,021	3,28,43	12,36,84,84	11,250	25,03,21,99
Liquors ...	3,17,04	2,79,47	3,22,83	4,69,69	metals, other manufacture		83,17,86,39
Hardwares &c. ...	1,27,07	1,96,48	2,72,07	3,05,47	silver		19,10,00,00
Paper & Paste Board ...	2,05,10	2,14,82	1,93,81	1,97,88	Tobacco	Tobacco	17,37,20,72
Provisions ...	1,00,64	1,11,45	38,80	3,91,17	29,28,526	81,75,000	7,94,35,05
Motor Cars & Cycles ...	...	...	...	3,21,42	...	...	2.76,93,33
Tyres & Tubes Matches ...	...	...	...	1,54,99	...	...	12,58,80,23

For a more detailed critique of the Indian customs policy, see the present writer's *Trade, Tariffs and Transport in India.*

was once apprehended. There were, no doubt, strong and valid objections to the changes in the tariff when they were introduced. The Indian financial system was far too much strained by the famines and the Afghan war in 1878 to justify the Government in relinquishing an important source of revenue such as that contributed by the import duties on cotton. Besides, the allegation of the protective character of the Indian cotton duties was without foundation, as the Indian mills of that time were producing goods of much lower quality, while the Lancashire mills were specialising in much higher counts. There could be no protection where there was no competition. Leaving aside altogether the constitutional objection to such changes being carried out by the Viceroy by the exercise of his extraordinary power of veto, as also the more remote question of the relative position of the Viceroy and the Secretary of State, we may admit that the first general remission was open to grave objections on purely economic grounds. In 1894, the objection was even more severe. The financial strain and uncertainties were greater in 1878-79. The Indian mills were particularly handicapped by the closure of the Indian Mint, and the consequent artificial rise in exchange. The pressure from Lancashire was, if anything, more openly selfish. The imposition of the excise duty to counteract the low import duties on cotton manufactures was more the outcome of commercial jealousy than a vindication of the free trade principles. But all these objections were essentially of a temporary character. They were no doubt fatal to the particular case against which they were urged. But they did not affect the main question at issue between free trade and protection. The fact that the industry around which there was the greatest controversy has, notwithstanding the hadicap from a protectionist stand-point, made during the period a continuous progress supports the contention of those who believed that the conditions of free competition are the healthiest for industrial growth.* We have reason to believe that an

* The Table below shows the growth of India's trade in merchandise only—excluding treasure.

(In crores of rupees)

Quinquennial. Average		Imports	Exports
1864-65 to 1868-69	...	31.70	55.86
1869-70 to 1873-74	...	33.04	56.25
1874-75 to 1878-79	...	38.36	60.32
1879-80 to 1883-84	...	50.16	79.08
1884-85 to 1888-89	...	61.51	88.64
1889-90 to 1893-94	...	70.78	104.99
1894-95 to 1898-99	...	73.67	107.53
1899-00 to 1903-04	...	84.68	124.98
1913-14		198.31	249.71
1914-15		144.93	182.12
1915-16		138.17	199.45
1916-17		160.24	247.31
1917-18		164.36	244.90
1918-19		188.56	255.28
1919-20		221.70	336.02
1920-21		347.57	267.76
1921-22		282.59	248.65
1922-23		246.19	316.07
1923-24		237.18	363.37
1924-25		253.36	400.24

Taking the period between 1874-1914 we find the Imports increasing from 38.362 to 191.31 or by 500%, while exports in the same period rose from 60.32 to 239.01 or over 400%. The trade figures give no true indication of the country's wealth; but we may fairly judge the effects of the tariff policy from these figures. During the same period the Customs Revenue increased from £2.678 million to £7.758 million, or 300 per cent. In the last 12 years the revenue has increased much more rapidly; but the trade figures are vitiated by a disproportionate rise in prices. The rise in the revenue is due to substantial increases in the rates of the duties charged for productive as well as protective purposes.

industry which withstood such competition must really be good and suitable. The Indian cotton mills are now producing superior cotton goods, which formerly they did not.

The following figures show the growth of the cotton mill industry in India :—

Statistics regarding the Indian Cotton Mill Industry

(in Thousands)

Year.	Number of Mills.	Spindles.	Looms.	Hands Employed.	Bales of Cotton Cnsumed.	Bales of yarn Produced.	Lbs. of cloth Produced.	Capital * engaged in Rs.
1900 ...	193	4,946	40	161	1,453	1,284	9,80,64	...
1901 ...	193	5,007	41	173	1,352	882	9,87,47	...
1902 ...	192	5,007	42	181	1,765	1,432	11,96,50	...
1903 ...	192	5,043	44	181	1,739	1,440	12,57,74	...
1904 ...	191	5,118	45	185	1,744	1,444	13,80,44	...
1905 ...	197	5,163	50	195	1,879	1,446	15,87,46	...
1906 ...	217	5,280	53	209	2,023	1,702	16,38,80	...
1907 ...	224	5,333	58	206	1,980	1,634	16,57,68	...
1908 ...	241	5,756	68	221	1,991	1,596	18,90,52	...
1909 ...	259	6,053	77	237	2,109	1,642	19,23,64	...
1910 ...	263	6,196	83	234	1,935	1,568	22,88,24	...
1911 ...	263	6,357	85	231	1,906	1,524	24,58,14	21,95,94
1912 ...	268	6,464	89	244	2,050	1,562	26,66,44	22,32,81
1913 ...	272	6,597	94	254	2,096	1,721	28,54,71	21,50,22
1914 ...	271	6,779	104	260	2,143	1,707	27,43,88	21,42,96
1915 ...	272	6,849	108	265	2,103	1,630	27,70,06	21,98,79
1916 ...	266	6,840	110	274	2,198	1,806	35,22,54	22,24,04
1917 ...	263	6,739	115	277	2,198	1,702	37,77,28	23,87,66
1918 ...	262	6,654	116	282	2,086	1,651	38,14,04	27,69,82
1919 ...	258	6,690	118	293	2,044	1,537	34,95,80	38,35,78
1920 ...	253	6,763	119	311	1,952	1,589	38,38,47	55,93,62
1921 ...	257	6,871	124	332	2,120	1,650	36,74,82	65,05,50
1922 ...	298	7,331	135	344	2,203	1,734	40,35,21	53,01,42
1923 ...	333	7,928	145	347	2,151	1,765	40,52,54	60,98,61
1924 ...	336	8,313	151	357	1,918	1,521	40,16,61	65,10,76
1925 ...	337	8,511	154	368	2,226	1,798	45,86,93	...

* The Figures for Capital are those of authorised capital, and relate to the official years; the other figures are for the year ending June upto 1913, and thereafter the year ending August, as adopted by the Mill-Owners' Association, Bombay. The actual paid up capital, at the end of 1924-25, was Rs. 46,60,75,000 *plus* £380,488, and a Debenture charge of Rs. 4,76,97,000 or over 51 crores of rupees. At the commencement of the century, this figure, so far as it could be ascertained, and as given in the Decennial Report of the Moral and Material Progress of India, is £11'325 million or about 17 crores of rupees.

These figures unfold a tale of steady progress, despite handicaps, which does not quite support the contention for an unprecedented depression in the industry, justifying special protective measures, with particular reference to one specified competitor. We do not overlook the effectiveness of the existing competition in every direction ; nor do we desire to question the fundamental justice of a claim for protection of such an important industry, on which depends the livelihood of such a considerable proportion of our people. But, when every allowance is made for these, the fact will remain to be answered that the mill-owners have been rather too liberal in distributing the extraordinary profits of the war and postwar years, without making adequate provision against a rainy day. "Between 1905 and 1914, both years inclusive, the mill industry paid an average dividend of 10½ per cent. on an average capital of 6½ crores. In 1915 to 1922, both years inclusive, they paid an average dividend of 53 per cent. on an average capital of 12½ crores, and they paid away in the eight years ending 1922 a sum of over 50 crores in dividends."* Besides, there is evidence of a certain watering of the capital, which also renders the criterion of success, *viz.* ability continuously to pay dividends to share-holders at a high rate, impossible. Allegations have also been made with regard to the mode and the amount of the agents' commissions, and a number of the middlemen's charges, and secret advantages not going to the real proprietors of the industry, which have weakened considerably the case for protection to the Indian cotton industry. The only way in which such protection could be afforded innocuously to the country at large, as well as to the public exchequer, is, as suggested below, by introducing the principle of progression in the general *ad valorem* tariff applying to the cotton manufactures, charging the piecegoods of higher counts at a much higher rate, and thereby permitting a better utilisation of Indian capital, labour, and raw material, than is possible under present conditions. Finally, the comparative position of the mills in all parts of India, contrasted with those in Bombay, and again with the best managed mills in the premier seat of that industry, makes it evident that, from the point of view of efficiency in production, there is room for improvement at least by fifty per cent., without any increase in the capital engaged ; for the best Bombay mill is productively about 30 per cent. better than the average Bombay mill, while the average Indian mill is about another 30 per cent. behind the average in Bombay. If this deficiency in the mills all over India were made up, India could spin and weave in her own mills at least 4 out of the 6 million bales of cotton she now produces, instead of the 2¼ million now spun and woven ; and the prosperity of the industry would improve in proportion.

The cotton industry of India has some advantages, such as good raw material easily available, and relatively cheap labour. On the other hand, it has severe handicaps, not merely in the absence of sufficient skilled labour, but also in the intensive competition from countries with depreciated exchanges. The countervailing excise duty on Indian manufactures, also, was, while it lasted, a considerable handicap, though its rate was 3½%. The

* Cp. the Labour Representation to the Cotton Industry Tariff Board of 1926.

mill-owners also claim the burden of local as well as central taxation, on water, machinery, stores, raw material, and even profits, to be a heavy drawback; while in comparison with their most formidable competitor, at least as the Bombay mill-owners view it, the labour legislation regarding the hours and conditions of work is, they believe, so liberal that the industry is threatened in their opinion, with utter extinction. Japan is not, quantitatively speaking, a very formidable competitor. Imports from Japan are scarcely 20% of those from England. And if India ever aspires to spin and weave goods of the highest counts, if she ever aims at supplying fully her own market from her own products, or working up the whole of her own raw material herself, the most dangerous competitor will certainly not be Japan. Still Japanese enterprise is marvellous; and the freight and financial facilities to Japanese traders in India are undoubtedly a great advantage to them. Accordingly, the mill-owners have pressed for, and obtained in July 1926, a special Tariff Board to inquire into the prospects of their industry; and it remains to be seen what that body has to say about the ways and means of propping up the Indian cotton industry. In our judgment, however, the Government of India has ample scope for graduating progressively their import duties on cotton manufactures, till on goods of the bigest class of luxuries as much as 50% or more could be charged by way of import duty, while goods of the lowest class may be admitted free or on a nominal rate say 2½%.

In other directions, also, the policy cannot be summarily declared to have been ruinous to Indian industry and trade. It is true the new industries, like those of iron and steel, hydro-electric power supply, leather manufactures etc. have been only recently established. Their war-time success was due to the artificial protection they received owing to the dislocation of similar industries elsewhere, and also to the freight difficuties. Nevertheless, they seem already to have attained a position in which they might confidently expect to supply the portion of the Indian demand that has fallen to their share during the war. The Government of India were, however, advised by their Fiscal Commission of 1921–22, to adopt a policy of discriminating protection to suitable and promising industries, with special treatment to what were described as the "key" industries of national security and prosperity. The commission was not for dropping entirely the claim of revenue in framing the customs schedules; but they suggested that in suitable cases revenue considerations may be combined with protective elements; and the Government have given effect to this suggestion in the case of sugar duties. The Indian Fiscal Commission were emphatic in their condemnation of the countervailing cotton excise duties; but financial reasons did not permit the Government of India to abolish these until more than three years after the report of the commission. The steel industry has been treated by them as a "key" industry; and the first detailed inquiry by a specially constituted Tariff Board was in that industry.* Instead, however, of giving protection by means of import duties, Government have preferred to give it by means of

* See a pamphlet by the present writer entitled *Protection to Iron and Steel in India, 1924*.

bounties each time for a definite, limited period, and by a special Act of the Legislature.*

The fiscal policy may thus be said, not quite without any reason, to be a secondary factor in determining the industrial prosperity of India. But the strongest plea of the free trader in India is that of cheapness. Given the almost incredible poverty of the Indian people, the policy which claims cheapness to the consumer as its guiding maxim cannot but command a most respectful attention from every one who claims to have the interests of the masses at heart. It may be open to doubt if the Government of India were always genuinely desirous of keeping the interests of the masses exclusively before them, in all their vicissitudes in fiscal policy; but it is certain that in the next generation, the popular or nationalist party in India, assuming India to become a self-governing democracy, will have to reckon with this argument.†

The case for free trade in India is thus complete. We have, in the foregoing exposition, taken no account of the purely financial side of the question, though, it must be observed, that a source of revenue bringing in close upon 50 crores a year cannot be wholly abandoned by the Government of India under any probable circumstance in the near future.

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* The present high prices are expected by many to be injurious to new production started on calculations made on the basis of present prices when the inevitable depression sets in. Whether or not there is such a regular cycle of the trade depressions and booms, it may be said that, apart from currency policies, the need of restoring the damage done by war and the gap left in the world production would for some time keep up the world prices. The American war in the sixties closed in 1864, and yet the trade depression did not assert itself till 1873, all over the world. The last war has affected almost every important country, and the duration of high prices, other factors excluded, may quite possibly continue for another decade at least. On the other hand, the exchange situation due to currency manipulation, is causing, and must continue to cause, serious anxiety, and prevents that briskness of international trade which alone can keep up prices. Countries, like the U. S. A. and India, have much to export, but not so much to import, unless they are well paid and properly. In the absence of any satisfactory system of international credit, the revival of industry in the ruined regions will be exceedingly difficult. The Brussels Conference gave rise to the Ter Meulen scheme which has not yet been universally adopted. Meanwhile, depression has set in in the United Kingdom with its inevitable sequence of unemployment. Business stagnation has been kept off in India, if at all, by the activities of a few high placed, hardy speculators. * * * * * *

This forecast in the first edition of this work seems to have been substantially borne out by the events of the eight years since the signing of the Armistice. Prices are still much higher than in pre-war days, though a certain degree of decline from the peak prices of 1920–21 has no doubt taken place. Currency policies are in the process of hardening, and economic reconstruction either already accomplished, or in the process of accomplishment. The employment of all productive energy of humanity at large does not yet appear to be on the most approved lines; and there is still a great deal of avoidable wastage, which augurs not at all happily for our future prosperity.

† Speaking on a motion for the abolition of the countervailing excise duty on Indian cotton in the Imperial Legislative Council on the 9th of March 1911, the late Mr. G. K. Gokhale expressed himself on the general question of free-trade *vs.* protection in India as follows :—"But, Sir, situated as India is, I fear there is no likelihood of that kind of protection being available to us, and **it is my deliberate conviction that, in our present circumstances, a policy of free trade reasonably applied is after all the safest for us**......Until at any rate we grow so in our influence and our position in this Council that the Government will think it necessary to accept and act on our views, I really think that on the whole a policy of free trade reasonably applied is the safest policy for this country; otherwise influential interests, influential combinations, influential parties in England, who can have a ready access to the Secretary of State,......will not fail to take the fullest advantage of the situation; and this huge engine of protection which a vast power can employ will be employed, not particularly in the interests of the people of India but in the interests of those parties." The present Indian non-official attitude on the question of Imperial Preference reflects, from bitter experience, the same distrust of English selfishness,

This, however, is only one side of the case. The advocate of protection to Indian industries does not deny the growth of Indian trade and industry under the regime of free trade. He only maintains that the character of our foreign trade would have been different, and the growth of industry more diversified and much earlier, had scientific protection been applied to Indian industry at a much earlier date. The diversity of climatic conditions, the richness of physical resources, the abundance of labour, make it absurd to dogmatise empirically about the unsuitability of an industry in this country. The protectionist believes that, thanks to the prevailing policy, our resources are yet unknown, our capital unattracted, our labour force untrained, unintelligent, irregular and inefficient.* The difficulties, therefore, which Indian enterprise meets with whenever it pioneers new industry, must necessarily be immense, though temporary. And it is only to overcome these temporary difficulties that proper protection to nascent industries is desirable. On *a priori* grounds, there is no reason to apprehend any disastrous effects in a policy of sustained, scientific protection merely owing to a rise in prices, since the difficulties caused by that force will be counteracted by a more varied employment with better wages.† There may, indeed, be a temporary divergence between wages and prices, and a corresponding misery of the working classes. But the watchful might of the state in a government resting on popular support might be trusted to see that the benefit of protection is not exclusively reaped by the capitalist class alone. Industries may have to be regulated and prices controlled to avoid the risks which may possibly arise from a policy of intensive protection. Entirely new industries may even be found profitable to be conducted by the public agency.‡ And if these palliatives do not suffice to overcome the temporary

* In his financial speech for 1878–79 the veteran free-trader, Sir J. Strachey, observed: "**India by the extent and favourable conditions of its territory is capable of producing almost every article required for the use of man.**" To him, however, this was an additional reason for freedom of trade: "Here then is a country, which, both from its poverty, the primitive and the monotonous character of its industrial life, and the peculiar character of its political condition seems to require from its government, before all things, the most economical treatment of its resources, and, therefore the greatest possible freedom in its foreign exchanges." He felt for the poor Indian in the increased expenditure involved in buying dutiable cotton cloth, but did not feel that his poverty was progressively intensifying owing to the want of diversity in employment. He felt that the annual drain of 20 million pounds required the maintenance of a trade balance in favour of India, but did not see that the exported raw material, which came back in the shape of manufactured goods, cost the Indian consumer all the profits of the manufacturer and the carrier, which might have well remained in the country. He instituted a Famine Insurance Fund, which was not kept up, but did not consider the only effective insurance that the diversity of occupation affords. The basic rationale of this official attitude seems not to have changed even now; for the Fiscal Commission of 1921–2 lay it down, in para 102 of their Report: "Not only in our view are their strong objections as a rule to granting tariff protection to *new industries*, but the grant of such protection is really unnecessary." One should have thought it is just the new industries which need such protection most.

† The rise in prices is not necessarily equal to, or even explained by, the import duties alone. Thus the price of cotton manufactures increased between 1913–19 from 8 annas to Rs. 1-3-6 or 135% and 150% in the case of cloth, though the change in duty was only 3¾%. Even in spite of falling exchange (100%) of 1920 there was no great change in prices.

‡ The Indian Government is not a stranger to the conduct of great industries, *e.g.*, the railways and opium. For fuller treatment, see the present writer's *Trade, Tariffs and Transport in India*, Part III.

hardship of protection, it may frankly be admitted as a necessary cost for the industrial education of the country. Gifted as India is by nature, she can afford to defy the bogie of retaliation, as there is hardly anything she cannot produce herself, at least to supply her own domestic market. And that market is so vast that for an industry with any chance of existence there would be no fear of a dead failure, even if the industry has to be confined to the Indian market.* On a general review, therefore, of the most important factors affecting the customs policy of India, we cannot help concluding that there is at least as much to be said for the policy of protection as for that of free trade in India.

Considering, next, the possibilities of an intensive development of modern large scale industry in this country, which is chiefly represented to-day by cotton and jute, we find that more than ⅓ of the total cotton produced in the country, and over 50% of jute is exported. If it be assumed that all our own raw material, which is now exported, should at least be manufactured in the country, we would find that there is considerable room for expansion in these two staple industries alone. The total value of this cotton, if manufactured in India, ought to exceed Rs. 100 crores. The most effective means of assuring the full supply of raw materials to the Indian mills is a tax on the export of these materials.† If, in addition, there is high

* This argument pressed to its logical conclusion suggests the economic heresy of a reversion to the old ideal of self-sufficiency. Without going all the length of that principle, we may yet urge the above for what it is worth against the bogie of retaliation in a tariff war. See the Minute of Sir E. Law, the then Finance Minister, to the Government of India's despatch of October 1903, particularly para 136, which says:—

> "136. Before attempting to draw any conclusions from the above examination of such facts as can be ascertained, I must once more insist that information at our disposal for a correct appreciation of all the numerous points involved in the question under consideration is insufficient. It requires to be supplemented by inquiries as to the uses to which Indian produce is put when received in foreign markets; and without such full information in this respect as could only be obtained by local inquiries in the different countries concerned, we cannot say with certainty how far, in case of a tariff war, each individual country could afford to assume an aggressive attitude, hampering the supply of raw materials required for its industry. At the same time I feel sufficiently confident that with the great majority of countries with which we trade, and as regards the very great bulk of our exports of raw materials, we are not only in a safe position, but we could even afford, in certain instances, ourselves to assume an aggressive attitude by going so far as to impose duties on the exportation of produce they require for their industry. This is not the case with every country, or by any means with regard to all classes of produce exported, and with possible exceptions in the case of Russia, Austria, Germany, and Belgium, it seems to me to be more in Indian interests to leave matters as they are, than to embark on a new fiscal policy, unless indeed, by its adoption very great advantages could be obtained by preferential discrimination in favour of exports to the United Kingdom and British colonies and possessions."

† Cp. paras 176–7 of the Fiscal Commission Report. The arguments against an export duty are much too clear to be ignored. But they apply more to the export of foodstuffs than to the export of raw materials for industry, especially when the export of these precludes the fullest possible development of manufacturing industries dependent upon them. That such taxation might quite possibly result in the conservation of the resources of industry is evident from the fact that the British Government Committee, appointed to consider the problem of post-war industrial and commercial policy, seriously made such a suggestion involving a scheme of Imperial Preference for raw materials. Between the two alternatives of a prohibition of exports, or exports under a system of licenses, and export duties, the latter is sure to be preferred in India by Indian public opinion, since while under the former there would always be a suspicion of partiality

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duty on the manufactures imported, India ought to be able to supply her own market in cotton, and obtain the bulk of the world trade in jute. The extension of the two industries brought about by such means would sufficiently increase employment, and aid wages, to render the probable increase in the prices of the manufactured commodity relatively unimportant. The only danger from such a policy of taxing the exports of raw materials would be its injurious effects on the cultivator, and possibly the diminution in the supply of these materials. But cultivation of these crops has gone too far for a duty of 10% to 20% to affect substantially the out-put.* At the worst we would have to evolve some means of price guarantee which would prevent the cultivator being injuriously affected.

Our mineral resources in respect of coal, iron and other ores are yet not fully known or understood. The great imports of iron and steel goods, including machinery, cannot quite advisably be taxed very high until we are assured of a sufficient total supply of the necessary raw material. But the possibilities of these industries hinted at in the Industrial Commission Report† would not allow us to ignore the claims of all metallurgical and mineral industries to protection. They are the "key" industries which every nation must strain every nerve to establish within the country. We think the best form of protection to these industries would be a certain assurance of market, *e.g.*, by means of government purchases up to a specified quantity, and at a slightly higher price.‡

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to the members of the empire to the prejudice of the Indian producer, under the latter, competition would not permit any such suspicion. Besides, a growing proportion of our cotton and jute exports is to non-British countries. The duty, therefore, would be paid by those countries. In the case of jute, there can be no doubt of the financial wisdom of an export duty, both on manufactures and raw material, as the experience of the last 10 years shows. A doubling of the present duty would probably add to the revenues about five crores or more until a commercially good substitute for jute has been discovered.

But this is largely a financial argument, which overlooks the impression it would ordinarily make upon the agricultural or producing interest. The growth of democratic institutions in India will necessarily make the agriculturist's point of view most attended to. And the agriculturist is sure to be suspicious of suggestions like this. It does not seem likely that any proposal for an export duty on cotton will be accepted by the Indian legislature, though the case of jute is different.

* The case of an export duty on cotton is not quite so simple, or strong, as that of jute. Out of a total average annual production of 25 million bales, the United States of America produce 15 millions, and India produces 6 millions, roughly speaking. But the domestic consumption of the United States of America has increased from 33% of their crop in 1890–5 to nearly 60% of their crop now. There is, therefore, bound to be a steady demand for the Indian cotton. The greatest consumer of this cotton is Japan. 75% of our total export of raw materials is generally consigned to Japan. As Japan is specialising in cotton which is probably an Indian monopoly for all practical purposes as far as Japan is concerned, there is reason to believe that the export duty of 10% or so will fall, in part at least, on the foreign consumer.

Price guarantee for the benefit of the raw material producer would be difficult, unless Government undertakes a system of wholesale manufacture, or encourages co-operative enterprise to take up large scale manufacture.

† See *Industrial Commission Report*, paras 55-59.

‡ Since the first edition of this work, and following the recommendations of the Fiscal Commission as well as a specially instituted Tariff Board, the Government of India have accepted the obligation of a special protection of this industry. But they have chosen to give this protection in the form of bounties to the one concern which is engaged in the manufacture of steel. The policy of bounty would be all but impracticable, if there were competing concerns within the country; and the presence of active internal competition can alone eventually avoid or reduce the cost to the consumer, which is such a strong argument for free trade.

The case for the protection of the sugar industry stands on a different footing. The imports into India, notwithstanding the very high extent of the area occupied by the sugar cane crop, have been stimulated by foreign governments by bounties on sugar, as well as by the backwardness of the sugar industry in India. We would, therefore, suggest that the present duty on imported sugar be doubled, and the domestic sugar industry should be encouraged by every means possible.*

But the strongest case of government intervention and protection is perhaps in the case of forests, and the industries connected with or dependent upon them. The imports of timber and wood, rubber gums and resins, paper and paste board amounted to nearly 7 crores in the last year, for which figures are available. There is every reason to believe that our Indian forests are capable of yielding all this material and more. A systematic investigation of our resources in this respect and their exploitation would be hastened by the imposition of a 20% duty on these and cognate articles of import.†

The same may also be said of hides and skins. We import about 20 lakhs worth of raw and dressed hides and skins, against which we export 14 crores worth of hides and skins raw as well as dressed. This suggests considerable scope for our boot and shoe, saddlery and leather trades. An export duty on hides and skins (raw) of 10%, or even 20%, coupled with a 25% import duty on all saddlery, boots and shoes and leather goods, will bring about the ideal to be aimed at, that we should manufacture fully at least our own raw material, and be able to supply from our own manufacture at least our own local demand. Raw hides would, of course, be exempted from taxation on import.

Of oil-seeds we export about 33 crores out of a total crop of about 40 crores. The oil pressing industry would benefit, and the manufacture of oils increase in proportion, if, by an export duty of 20% on the oil-seeds, the material is assured for the home market. We need not suggest the same course with regard to grain crops, as, in their case, Mr. Dutta's arguments against the export duties will apply in full force.‡

* Says the *Industrial Commission*, para. 89 : "The universal adoption of power plants for cane crushing would cost about 30 crores of rupees. This expenditure would be justified by the consequent reduction of the present cost of cane crushing and by the increased yield of sugar." Another 50 crores is estimated by the same authority as necessary outlay for water lifting apparatus to supply adequate water to sugarcane. The total cost of 80 crores at 5% would mean a burden of 4 crores,—more than set off by the increase in customs dues, and income-tax as suggested elsewhere. The sugar duty alone has, since the above was written, been more than doubled, but the Indian sugar industry has not grown in a like proportion.

† The Indian forests and the connected indnstries, including paper-making, would mean an additional capital demand of Rs. 50 crores, or 75 crores including forests communications and wood distillation. See the Chapter on Forests.

‡ In his report (1913) on the enquiry into the recent rise of prices in India, Mr. K. L. Dutta thus speaks of the export duties on food stuffs : "A study of these figures shows that the percentage of exports to the total production is ordinarily very small, and that in years of famine, it dwindles to a still smaller figure indeed. Thus in 1897-98 it was ·86, in 1900-01, and in 1908-09 it was 1·01, while in exceptionally favourable years it does not rise much above 4%. It was only in two years out of the long period from 1891-92 to 1911-12, that the food supply in India actually fell short of requirements, and had to be supplemented by importing more from outside than was exported from out of the country. This was probably

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Summing up the changes proposed here, it will be noticed that the financial aspects are by no means discouraging, as the changes proposed are not so high as to stop the trade in the taxed articles altogether. The total net revenue from customs would be raised, if all these changes are given effect to, to Rs. 50 crores at least, and possibly to 55 or even 60 crores. The duties on the export of raw materials would have to be reduced in proportion as the local manufacture develops and absorbs more and more of the local material. The full development of these manufactures would, judging from the present conditions, be more than sufficient for the Indian markets. But the industries thus developed will not starve for want of market, as there are immense possibilities for the expansion of inland trade and that with the neighbouring countries of Africa and Asia. The only difficulty in such a programme would be the absence of capital. It was once calculated that at least 600 crores of new capital investment* would be necessary to bring up the development of our industries, commerce, and communications to the desired level. If this capital could be obtained and applied properly, there would be no

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the effect of the export of a considerable quantity of the finer kinds of food grains to the immense benefit of the producers. Requirements of those who could not afford the finer stuffs were met in their interests by the import of cheaper kinds of grains from Burma and other countries." His whole argument supports the case of no export duties on foodstuffs ; the relatively small proportion of exports to total production, the possibility of favourable exchange, the steadying influence of exports on price levels, the encouragement to production, and the creation of a reserve—all applied to food grains, and not to the raw material for which we have proposed export duties above.

*This calculation was made in my University Extension Lectures on Indian Industries and Commerce (1919). The basis of the calculation was briefly this :—Finding out the actual capital invested in an industry, the number of mills, factories or establishments in that industry, the work turned out, and the possibilities of extensions. Dividing **one** (capital) by **two** (factories) we get the **average** capital per factory ; multiplying this average by possibility of extension, we get the total capital that may be required in that industry. By this calculation I found the marginally noted capital needs in the chief directions in which extension is possible. The six hundred crores required by industry, or 1,000 crores in all including additional capital needed by agriculture and commerce combined, should not be left to be provided by private enterprise, but should be obtained on the credit of the Government, and worked on co-operative principle by associations of producers of raw materials, or, as in the case of big railway projects or ship-building enterprise, where associations of workers cannot quite be expected to work themselves on the collective principle, directed by the Government. It would be a grave mistake, which would intensify the nascent industrial unrest in India, if the Government leaves even new industries like ship-building to private capitalists.

Cotton	20 crores
Jute...	20 ,,
Silk	10 ,,
Rubber, paper, wood distillation, cabinet making, timber, tea	75 crores
Mineral: iron, zinc, copper, coal ...	50 ,,
Power	25 ,,
Banks & Insurance...	50 ,,
Roads	50 ,,
Ship-building ...	200 ,,
Canals	50 ,,
Total ...	600 crores
Agricultural land improvement ...	300 ,,

From the recent formation of companies for industrial purposes in the country, and looking at the bare figures of subscriptions to unproductive Government loans, one might almost say that the necessary capital is forthcoming. But there is serious reason to fear that the floatations of 1919-20 are not all genuine and will not all prove profitable.

difficulty in accomplishing the industrial development to the full extent that, with our present knowledge, the country seems ripe or suitable for.*

VII.—Imperial Preference in India

The only remaining problem that must be examined in this brief sketch of the Indian customs policy is the recent proposal for a scheme of Imperial Preference. Ever since the famous *Coup de Theatre* by the late Mr. Joseph Chamberlain in the summer of 1903, a growing school of English politicians, warned by the rapid strides of Germany and the U. S. A. in industrial development, has preached a modification of the fashionable doctrine of universal free trade. If the idea of complete freedom of trade cannot be achieved owing to the fiscal policy adopted by most countries in the world, the English statesmen of this school thought that they could at least have freedom of trade within the empire; or, since the self-governing colonies could not admit of absolute freedom, such a co-operative, sympathetic manipulation of the tariff in all the parts of the British Empire, as would bring the trade rivals of England to heel within a short time by the exertion of powerful economic measures. Alternatively, they thought of making the British Empire, as far as may be, self-sufficient. This school was for a while discredited owing to other more urgent problems at home. But the last war has created new incentives. The memory of war hates still continues. And it is an open secret that the old allies would like to exclude Germany, if they can, from the world trade. The allies, as much as Germany, need the raw material to renew their old industries. The allies, as much as Germany, need to make good the wastage of war, to reconstruct their diverted or depreciated plant, to rehabilitate altogether their industry. The supplies of raw material are limited, as also the markets for European manufactures. Under these circumstances, we need not be surprised if we find a keen desire for reserving to oneself and one's friends such supplies as are within one's control. Hence the recrudescence of the new idea of Im-

* The general customs policy of the Government of India may now be taken to be represented by the following resolution of the Indian Legislative Assembly, of February, 1923: "This Assembly recommends to the Governor-General in Council (A) that he accepts in principle the proposition that the Fiscal Policy of the Government of India may legitimately be directed towards fostering the development of industries in India (B) That in the application of the above principle of protection, regard must be had to the financial needs of the country, and to the present dependence of the Government of India on import, export and excise duties for a large part of its revenue. (C) That the principle should be applied with discrimination with due regard to the well being of the community and the safe-guards suggested in paragraph 97 of the Report of the Fiscal Commission. (D) That in order that effect may be given to these recommendations, a Tariff Board should be constituted for a period not exceeding one year in the first instance. That such Tariff Board should be purely an investigating and advisory body, and should consist of not more than three members, one of whom should be a Government official, but with power, subject to the approval of the Government of India, to co-opt members for particular inquiries."

In the actual appointment of the Tariff Boards, since instituted, Government seem to have departed materially from the spirit of this resolution; for they have set up a special tariff board for each industry investigated, and not one general statutory body, as seems to have been intended by this resolution. The Fiscal Policy, as a whole cannot also be said to have been scientifically formulated. and crystallised in anything like the manner the German or the American model suggests. See the present writer's *Trade, Tariffs and Transport in India*, for a comprehensive Tariff Reform Scheme.

perial Preference, which, however, cannot materialise in the British Empire, except with the consent of the component parts, or at least of such of them as enjoy fiscal autonomy.

No definite scheme of Imperial Preference has yet been evolved. We can, therefore, discuss the question only in the abstract. Speaking generally, the interests involved in any proposal for Imperial Preference within the limits of the British Empire are likely to be so antagonistic as to render any uniform manipulation of the imperial tariffs almost impossible. The consciousness of a divergence of interests, the suspicion, not quite without foundation, of ulterior motives, the growing strength of local patriotism, —will all combine to aid the self-governing dominions in offering a stiff resistance to any likely scheme of preference. And the opposition would be all the greater if the problem is to be considered from the allied, and not from the merely British Imperial standpoint. Australia has no desire to see her markets invaded by Japan, any more than India has. The rivalry of Japan and the overwhelming might of the United States are far more to be dreaded in the next generation by those members of the British Empire, who by their situation, or by present trade connections, are likely to be exposed most to such competition than any fears of competition from a demoralised and crippled Germany.

The problem of Imperial Preference seems thus to be of little more than academical interest, but for the recent significant changes in the customs policy of the United Kingdom, and the pronouncement of her leading statesmen. The issue may at any time become a real, living, burning controversy. We would not, therefore, be importing any irrelevent discussion into our thesis if we briefly glance at the possibilities of Imperial Preference as applied to India—particularly as there have been considerable discussions on the subject in the Indian Imperial Legislative Council.*

The history of Imperial Preference in this country may be said to date from 1903, when the then Secretary of State requested the Government of India to consider the question. The views of the Government of India, embodied in their despatch of the 22nd October 1903, were necessarily a little vague, since they had no definite scheme before them on which to pronounce. They were unanimous in finding the proposals for Imperial Preference in India unsuitable to this country. The trade of

* The Indian Government made a first attempt at Imperial Preference in 1919, in respect of hides and skins and dye stuffs. High duties were imposed on the imports of those articles in the first instance, but a rebate was to be allowed if it could be shown that the imports were from the British Empire. This really amounted to a bounty to the British dealers in those goods at the expense of India. The dye stuffs, for example, imported from Germany by British merchants into England in the first instance and then re-exported to India gave a clear bounty of 10% to the English merchant. There has recently been further discussion (February 1920) of the general problem with a view to investigate the possibilities of a comprehensive scheme of Imperial Preference strongly opposed by the non-official Indian members of the council. The Indian Fiscal Commission found a majority of the witnesses appearing before them hostile to any idea of Imperial Preference in India (Cp. para. 240, Majority Report). And yet they were themselves inclined to favour the proposals.

India, they urged, was so distributed as to be in very great proportion as regards imports from the British Empire, and a relatively small proportion of exports to the United Kingdom and the British Empire generally. Allowing for the necessary modification of these figures, owing to the fact that a good deal of the exports to Hongkong and the Straits—included under other British possessions—was eventually meant for China and Japan, the total of our export trade with foreign countries would amount to 61% of our entire export trade.

Imports.	Amount	P. C.
	£	
From U. K. ...	34,849,000	66%
From B. E. ...	4,995,000	8.5%
From foreigners	12,681,000	25.50%
Exports	**Amount**	**P. C.**
	£	
To U. K.	21,165,000	25.6%
To other parts of British Empire ...	28,061,000	21.4%
To foreigners ...	44,694,000	53.0%

Any scheme of Imperial Preference, which allows India to tax all imports, primarily with a view to afford an irreducible minimum of protection to her own likely industries against all comers, and incidentally with a preference to those obtained from the British Empire, would be objected to by the British manufacturers.* And without such a permission, the Indian people would entertain very great suspicions of the bona fides of any scheme of Imperial Preference. The situation has, no doubt, altered during the intervening period; but the alterations have only ended in intensifying the old factors. Our imports still are mainly manufactures, which, there is every reason to believe, India can, given suitable conditions, develop at home. Our exports consist largely even now of raw materials and food stuffs, which it is the interest of the countries, to which we export them, to receive without let or hindrance. In the period before the war, the bulk of Indian exports were received by countries with the most intense protectionist policy either free or charged only revenue duties. Even, as in cotton, where India does not enjoy a producers' monopoly, the condition of production as well as the world demand of such commodities are so favourable to India, that she can scarcely expect any beneficent change in her volume or direction of trade, by being a party to a scheme of Imperial Preference, which would require her to discriminate as between her customers, not on the economic grounds of her own material interests, but on some specious political considerations which might be foisted upon her Government. And if the policy of Imperial Pre-

Imports 1918-19	Amount	P. C.
	£	
From U. K. ...	51,338,000	46%
From British possessions ...	13,320,000	12%
From foreigners ...	48,031,000	42%
Exports		
To U. K.	48,286,000	28%
To British possessions	40,057,000	24%
To foreign countries with modifications	80,899,000	53%

* "The net result is that Indian exports to a value exceeding 38 millions sterling, and approximating to one half of the entire volume of our export trade, are admitted free of duty in the consuming markets; while of the remainder a considerable proportion is either subject to relatively moderate duties, or, as in the United Kingdom, to duties imposed for purely revenue purposes, and with no attempt to differentiate against us." (para 8 of the Government of India despatch of October 1903). This was quite properly ascribed by the Indian Government "to the nature of the bulk of exports, which consist in a great measure of raw materials which are an object of importance, if not of necessity, to the importing country". (*Ibid.*)

ference is to be modified in the interests of the allies, the loss to India,—who finds Japan a dangerously growing rival even in the Indian market and much more so in the Chinese,—would be too clear to require further demonstration.* There is, moreover, nothing in which India can bargain with the other members of the Empire. England will in all probability insist upon free imports of the foodstuffs and the raw materials required for her population and industries in any scheme of Imperial Preference, which would give the Indian producer no advantage. But even supposing a preferential treatment is given in the English market, the only exports to benefit at all would be tea or wheat. These have, as it is, an already assured market; and for them, therefore, no additional preference is desired, unless simultaneously India is set at liberty to tax the imported manufactures sufficiently high to give her own manufactures an appreciable advantage.

The Government of India feared in 1903 that any acceptance of the general principle of Imperial Preference might result in the Indian fiscal policy being manipulated in not Indian, but anti-Indian interests. In the years that have since elapsed, there have occurred no events to remove this apprehension. It is, generally speaking, unsound to introduce political considerations in this economic problem. But as Imperial Preference is itself a child of political pressure, there can be no objection in mentioning the fact of anti-Indian feeling and legislation in the chief British Dominions. So long as this kind of invidious and oppressive treatment is specially meted out to Indians in the leading British colonies, it would be unreasonable to expect any Indian statesman to accept or agree to the principle of Imperial Preference. † On the contrary, the new self-governing India would surprise the

* Imports and Exports from Japan and U. S. A. have grown. These figures tell their own tale without any need of comment. The capture of Indian market by Japan and our exclusion from China by Japan is made only too painfully evident by a further analysis of these figures.

(The Figures are in thousands of rupees)

	JAPAN.		UNITED STATES.	
Year.	Imports.	Exports.	Imports.	Exports.
1911-12	3,47,75	16,72,92	5,29,09	15,59,07
1912-13	4,06,67	18,70,92	5,20,31	18,79,00
1913-14	4,78,02	22,67,38	4,79,94	21,77,83
1914-15	4,44,96	15,65,34	4,67 99	17,34,25
1915-16	7,49,67	18,40,66	7,87,11	21,14,73
1916-17	13,33,32	28,13,37	10,95,58	31,19,93
1917-18	18,26,30	34,09,94	11,81,38	30,46,09
1918-19	33,52,28	29,14,67	16,14,86	33,06,51
1919-20	19,15,26	46,26,63	25,26,74	48,62,12
1920-21	26,43,01	24 15,97	35,29,79	34,74,16
1921-22	13,57,96	38,09,00	21,60,85	24,90,50
1922-23	14,42,23	40,19,90	13,17,97	34,32,77
1923-24	13,81,83	50,16,43	12,83,35	33,46,58
1924-25	12,12,07	55,14,54	14,07,03	34,23,11

†The anti-Indian feeling and legislation in British Colonies like South Africa have not ended in spite of the war, or the services rendered by Indian troops during the war. The latest manifestation was the action of the South African Government in modifying the law relating to acquisition or holding of property by Indians in the colony. It was, if anything, more intensely anti-Indian than any such legislation before the war.

world, if it does not start an active policy of effective retaliation against these colonies as the first evidence of the birth of true self-government in India.*

The only effective reason which restrained the strong European nations in their tariff wars in the last generation was a wholesome dread of retaliation. But we in India, as Sir E. Law showed in his minute to the Government of India's despatch of October 1903, on the tariff question, need not fear by any such retaliation.† We possess more than ample resources of raw material, immense labour supplies and still untried power resources. Even capital, if only it is sought in the right direction and assured against unmerited failure, would be forthcoming from amongst Indian resources in the necessary quantities. There is no country in the world so able to defy retaliation, so likely to be self-sufficient, if required, as India. Tariff discrimination by foreigners, therefore, need not be feared by India, if she is able to develop her own industries herself.

One argument against Imperial Preference, to which the despatch of the Government of India above referred to necessarily gave great prominence, has slightly altered in its bearing in the interval. They feared the effects of Imperial Preference on our exports owing to a possible retali-

* Says the Report on Constitutional Reforms (1918): "After the war the need for industrial development would be all the greater, unless India is to become a mere dumping ground for the manufactures of foreign nations, which will then be competing all the more keenly for markets on which their political strength so perceptibly depends." (para 336 p. 212.) Again "Connected intimately with the matter of Industries is the question of Indian Tariff......The changes which we propose will still leave the settlement of India's Tariff in the hands of a Government amenable to Parliament and the Secretary of State; but inasmuch as the Tariff rests on many matters which will henceforth come more and more under Indian control, we think it well that we should put forward for the information of His Majesty's Government the views of educated Indians upon this subject." (para 341, page 215.)

†" 139. The situation appears to me to be this, that India could probably give without serious danger some small preference on her present low tariff rates on imports from other parts of the Empire; but she has little to gain by so doing, and would incur a risk of difficulties with her foreign customers in proportion to the extent of preference given in a system of inter-imperial preference, and to the rates of tariff on which it was given. If we were to raise our average tariff rates to, say, 10%, (which I would not in any case recommend) so as to give an appreciable preference of 20 or 30% to our imperial relations, such a difference might so affect our import trade with our foreign customers for exports, that they would necessarily consider the advisability of retaliation, and we might be landed in a series of tariff wars the results of which we cannot foresee with certainty. On the other hand, such very small preference as might probably be given with fair prospects of safety, on generally low tariff rates, would hardly be likely to afford such advantage to British manufacturers as would prove of material benefit to their interests.

140. Two important points must, however, be borne in mind in considering the whole question: first that most of the foreign countries which would be likely to resent the introduction of an inter-imperial preferential tariff are interested both in obtaining our raw materials and in supplying us with their manufactures; and that this situation gives us a *double* weapon to use against them if necessary; second, that the percentage of profits on manufactured goods is as a rule considerable, and consequently trade in many manufactured articles might not suffer appreciably from a small percentage of the cost of production of raw material and produce a serious check on importation, unless the supply of such commodity were necessary for important industries, and were so limited as to partake of the nature of a monopoly. I have already shown that a large proportion of Indian exports, consisting almost entirely of Indian raw materials and produce, is of that nature."

ation, and consequent disturbance of the balance of trade in favour of India.* If the excess of exports of Indian produce could not be kept up to the usual degree, the newly established currency system would become impracticable to maintain. Apart from the fact of India's being a debtor country, her political dependence upon England involves the payment of an annual tribute, called the home charges, nearly £30 million a year, and consequently any disturbance of the exchange which would lower the value of the rupee would necessarily be regarded by the Government of India with the utmost alarm. But the situation has altered appreciably.† Though India has not yet become a creditor country, there is no reason to fear that in the next decade or generation her credit balance of trade would not be maintained. The present problem of exchange is not, how to prevent a fall in the gold value of the rupee, but rather how to arrest the continued rise of the exchange value of the rupee, which in February 1920 broke all records. This particular reason, therefore, is not of great interest to-day, though even now our currency system is far from satisfactory.‡

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* Extracts from Sir Edward Law's minute (op. cit) :—

"137. I have indicated as far as possible how far it would appear such advantages might be obtained; but in existing circumstances, and in view of the fact that our exports consist almost entirely of raw material and produce, it does not appear probable that materially important advantages could be offered to us under a system of preferential tariffs in our favour adopted for other parts of the Empire. The gain to the United Kingdom would probably be as also to Mauritius; but I doubt if our trade relations with other parts of the Empire would be materially advanced in their favour by any far reaching change of policy.

138. In my opinion it might be difficult to show that a preferential trade would prove directly prejudicial to Indian interests; but should we be urged to join in a general preferential arrangement, I think that it would be our duty to point out strongly that, if our export trade with foreign countries were, in any way, seriously prejudiced, we should run a very great risk of disturbing the balance of trade, now strongly in our favour, and we might find ourselves once more plunged into the deep sea of trouble arising from a depreciating currency—depreciation of Exchange value of our rupee currency."

† Since the above was written, exchange has again gone against India till the rupee is worth 15*d*. (April, 1921.) The currency muddle is the one absorbing topic of the day; but so far no practicable or acceptable solution has been suggested.

Exchange has, since 1924, been once again raised in favour of the rupee by the deliberate policy of the present Finance Member; and it is now (1926) proposed to fix it by law at 1*s*. 6*d*. (gold per rupee).

‡ The conclusions of the Government of India are from their standpoint of maintaining a *status quo* as the best policy. We cannot, of course, agree with them in their entirety. We have quoted them with approval only in as far as they are against a policy of imperial preference. Even now Indian opinion would rather prefer a policy of free trade and a tariff for revenue purposes only to any scheme of imperial preference, where India is sure to lose more than she is ever likely to gain.

The changes in the customs policy following upon the recommendations of the Fiscal Commission make no reference to the proposals for imperial preference.

CHAPTER IX

Opium and Forests Revenue

I.—Opium Revenue

Forty years ago, when the Strachey Brothers published their standard work on the Finances and Public Works of India, they might well describe the opium revenue as the second most important item of revenue in India. The amount of the revenue, the problems connected with its assessment and collection, the variation which occurred almost annually in considerable magnitudes, and the strong agitation carried on in England by a section of the British press and public opinion—all combined to make the opium revenue the most widely discussed item in the Indian budget, second, if at all, only to the great item of the land revenue. But in the interval the situation has changed radically. Opium is no longer the second biggest item of revenue, nor the third, nor yet the fourth. It no longer arouses the same anxiety and speculation as to its yield that were once inseparable from any study of the Indian revenue system. It does not even give rise to interesting scientific discussion as to the proper method of collecting such a revenue under the rival claims of a heavy export duty, and of a public monopoly. As the opium question has receded completely in the background within the last 20 years, as well from financial as from a moral standpoint, we shall limit our discussion of this once important item in proportion to its present significance, with just a sufficient historical outline as to make the discussion intelligible. Such a plan would necessarily involve the eschewing of any discussion as to the relative merits of an export duty and a monopoly, as also of the general principles governing a public monopoly.

The total revenue derived from opium is obtained in three ways, and credited in the accounts of the Government of India under the two heads of opium proper and excise. The former represents (*a*) the proceeds of the sales by public auction every month of opium manufactured in the Government factory at Ghazipur,* and (*b*) the income from the export duty levied per chest of opium sent out from the native states of Rajputana and Central India. The manufacture of the Bengal opium is a public monopoly ever since the days of the East India Company, and the revenue from that source was continually growing from 1793 to 1905. As the manufacturing monopoly would not be maintained without a corresponding control on the sources

* The opium department was formerly divided into two agencies, one of Bihar with its headquarter at Patna, and the other for the United Provinces with its headquarters at Gazipur, both being controlled by the Government of Bengal. In 1910, owing to the diminution of work, the agencies were amalgamated, and a single agent was stationed at Gazipur under the control of the United Provinces Government. Cultivation of poppy in Bihar was discontinued in 1911.

of raw materials, the Government of India have prohibited cultivation of poppy except under a license from an authorised officer of the Government, and subject to the condition that the cultivator must sell the whole of the crop to the Government.* He is assisted during cultivation by advances made on account. The cultivator delivers the crop in a crude state at the local centre, whence it is forwarded to the Government factory at Ghazipur, to be there prepared for the market. It is called "provision opium" if it is destined for export. It is packed in chests of uniform weight, and sold by public auction at Calcutta. The opium destined for local consumption, known as the "excise opium," is distributed direct from the factory or from the public warehouse at Calcutta to the Government treasuries in the country; and they issue it to licensed druggists or vendors only. Out of the sale license proceeds a sum representing the estimated cost of production is credited to the opium revenue, the rest being credited under excise.

The revenue from the Malwa opium is derived from a pass duty levied on the opium exported from the native states. Since 1912 some portion of the revenue is derived from license fees, or sums paid to the Government for the right to export opium from within the states. The production of opium for the market is carried on in the traditional methods. Government, however, annually fixed the quantity which may be exported; and no opium may pass into the British territory, whether for export or for consumption, except on payment of the pass duty. The duty is levied at convenient stations maintained at Indore and elsewhere by the British Government. From these stations the opium is consigned to a central depot or public warehouse at Bombay, to be thence issued to traders. The duty on the Malwa opium is now Rs. 1,200 per chest of 140 lbs., being raised in 1912 from Rs. 600 per chest. The right to export it is now also disposed of annually by public auction.†

The subjoined table shows the gross revenue and expenditure of the Government of India, together with the amount of chests sold and

* The price now paid to the cultivator is Rs. 7-8 per seer of 70 degree consistency.

The prinicipal areas where poppy used to be cultivated were :—Bihar and districts of the United Provinces lying along and in the north of the Ganges valley, and a number of Native States in Rajputana or Central India. Opium from the former area was known as Bengal opium, while that from the latter was known as the Malwa opium. In smaller quantities opium is also produced in Baroda, Ajmer Merwara, the Punjab, the Shan States, and certain villages in Upper Burma.

† Formerly when the opium revenue was an important item, the adjustment of the revenue derived from the two sources of Government monopoly and pass duty used to occasion considerable discussion. Sir J. Strachey explains (op. cit. page 256 et seq.) the reason why a different rate must be charged on tho Malwa opium from that on Bengal opium. A Malwa chest contains 90 to 95 per cent. fine opium as against the 75% or 80% in Bengal opium. A fixed pass duty on the former, though levied empirically, must press less heavily on the superior opium of Malwa. On the other hand, Malwa opium was subject to the additional taxation by the state governments. Minute calculations were necessary to show the exact incidence of the pass duty as compared to the gains from the monopoly price. The subject is now of purely academic interest. A portion of the revenue is derived from the pass duty which is handed over to the States concerned. The advantage to the Government of India is necessarily in the Bengal opium and its increased sale; but the pass duty has in the past been frequently manipulated to suit the financial needs of the Government of India.

the prices realised. It will be noticed that in the last dozen years, the opium revenue has been steadily declining, due to an agreement with China, under which the Government of India have bound themselves progressively to diminish the quantity to be exported to China. Originally the export to China was to cease by progressive reduction within 10 years, but by a subsequent treaty of 1911, the Government of India agreed to hasten the period of complete cessation of exports. Since 1913 exports of opium to China have been stopped.

II.—Statistics of the Opium Revenue

Year.		Revenue.	Expenditure.	Number of Chests Sold.	Price per Chest.
		(In thousands of rupees.)			
		Rs.	Rs.		Rs.
1861-62	...	6,35,92	1,44,94	70,063	1,600
1865-66	...	8,51,82	1,89,42	64,111	956
1870-71	...	8,04,54	2,01,44	49,030	1,121
1875-76	...	8,47,14	2,21,85	45,510	1,259
1880-81	...	10,48,00	2,02,87	56,400	1,362
1885-86	...	8,94,25	3,05,76	50,994	1,234
1890-91	...	7,87,91	2,18,08	57,000	1,037
1895-96	...	7,12,39	2,06,89	37,695	1,390
1900-01	...	7,65,33	2,67,88	45,300	1,360
1905-06	...	8,20,31	2,83,86	49,200	1,434
1910-11	...	11,28,29	1,86,99	37,560	2,891
1911-12	...	8,94,19	1,09,42	26,330	2,790
1912-13	...	7,68,69	89,96	17,890	2,783
1913-14	...	2,43,73	1,51,86	9,070	2,116
1914-15	...	2,35,83	98,11	11,598	1,591
1915-16	...	2,87,03	1,71,65	12,660	1,777
1916-17	...	4,74,00	1,36,86	13,844	2,660
1917-18	...	4,61,83	1,66,31	12,538	2,555
1918-19	...	4,93,36	1,96,18	13,768	2,674
1919-20	...	4,55,62	1,29,98	11,397	3,140
1920-21	...	3,53,41	1,22,69	9,427	3,107
1921-22	...	3,07,25	1,80,05	7,755	3,047
1922-23	...	3,78,92	1,86,61	7,701	3,743
1923-24	...	4,24,81	2,58,79	8,324	3,914
1924-25	...	3,79,76	2,35,57	6,553	3,844
1925-26	R.E.	4,39,00	2,14,90		
1926-27	B.E.	3,80,00	1,54,41		

III.—Critique of the Opium Policy

While the opium revenue lasted it was the subject of the most violent controversy on financial, and much more on moral grounds. The opium revenue, it was urged, was the most uncertain item in the Indian budget. The chaos in our early finance under the Crown was frequently ascribed to the precariousness of this branch of the revenue. It is certainly true that upto 1867 the Government of India do not seem to have had any definite policy as to the amount of opium grown and manufactured, as to the amount to be sold, and the price to be realised. The revenue was, therefore,

exposed to the tender mercies of the opium speculator to a large degree. When, following the recommendations of Sir C. Beadon, Lieutenant-Governor of Bengal, the policy of fixed sales and maintaining reserves to keep* up the fixed sales was adopted, the revenue began to be free from the disturbing action of speculative bids. But the natural defect of this revenue depending upon the amount of the crop, which, in its turn, was determined by the character of the season, could not even then be eliminated; while a certain amount of speculation persisted notwithstanding all attempts to stabilize the market. The growth of the Persian exports, and the competition of the home-grown Chinese opium, made it impossible for the Government of India to keep up a stable price by their own control of the Indian trade. When, however, full allowance was made for the natural defect, its alleged precariousness was not invariably prejudicial to the revenue. As the greater amount of the fluctuations entered on the expenditure side, the proportion of disturbance was relatively smaller. As a matter of fact the fluctuations in prices have been much greater since the Opium Treaty of 1907 than ever before, making the yield for a few years after the treaty extraordinarily inflated by speculation running mad.

But the objections urged on moral grounds were far more bitter and persistent. It was urged by that section of the English public, which is always ready to be virtuous at the cost of somebody else, that the opium revenue was derived from the misfortune of China; that this traffic was forced by the superior might of the British Government against the known wishes of the Chinese people to the contrary; that the connection of the Indian Government as a monopolist in this injurious traffic must necessarily be deprecated, even if the traffic was unfortunately not abolished. Strachey (op. cit.) and Baring (the late Lord Cromer) in his financial statement for 1882-3, have shown how baseless these arguments were. The ability of the Chinese government to control the traffic with a view to its abolition was quite legitimately doubted, on the strength of the opinion of those, who, by their long residence in the

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* Sir Cecil Beadon thus formulates the general principles of the opium revenue :—

"It is not desirable that the area under poppy cultivation should be in excess of what on an average of years is found sufficient to produce the desired quantity of opium......If in any year the produce of opium exceeds the quantity which it is thought desirable to bring forward for public sale, the excess should be held as a set off against the temporary increase of expenditure involved in its purchase, and as a reserve against failure in future seasons ; but if in any year the crop be a short one, and there is no such reserve, the quantity to be brought forward for sale must of necessity be limited to the actual supply, and though there may be some saving in the actual expenditure for the year, the net revenue must either decline, or be maintained only by such an increase on the selling price as will stimulate the competition from abroad." These recommendations may be summed up thus :—

(1) The quantity sold must as far as possible be the same. To this end a reserve stock must be established. (2) The amount brought forward for sale must be determined by the price realised. (3) The price asked for should be such as would not allow of effective competition from abroad nor promote local production in China."

The Government of India created an opium reserve after 1870, and declared their total sales in advance for the whole year—the monthly stock auctioned being 4,700 chests,

country, were qualified to speak with authority, and much more on the ground of an undisputed extension of poppy cultivation in China itself.* Far from the Indian opium having monopolised the Chinese market, it was said to be confined only to the principal ports and the sea-board districts. From its superior quality and higher price, the Indian opium was used only by the relatively richer classes of the Chinese; and so the share of the Indian Government in "a progressive demoralisation of the Chinese people" was of the smallest proportion. Besides, from the opium trade the Chinese government itself derived considerable revenue; and its willingness to stop the traffic may be reasonably questioned on purely financial grounds.

It may be added here that the opium policy of the Indian Government was reviewed exhaustively by the Brassey Commission appointed by the British Parliament in 1893, and reporting in 1895. This Commission practically endorsed the Government policy for the time being.

It is, indeed, a moot point whether the Government monopoly of such an article as opium is more injurious than beneficial. Admitting that the consumption of a drug is harmful, it is all the more necessary that the traffic should be more effectively controlled by a government monopoly. The display of puritanism by a government, which would lead it to wash its hands completely of anything in connection with that traffic, is likely to be more harmful to the people affected. The private trader would not be satisfied until he sells the utmost he can, reckless of the result of this trade. The Government of India had discussed the whole question more than once in 1858, 1864 and 1882; and had felt on each occasion that the balance of advantage lay on the side of the monopoly, as much in the Chinese, as in the Indian interests. In the Chinese market, the Indian supply was an important, but by no means the only, factor. By certain natural advantages India could produce good opium at a price which no other country could afford. The only consequence of the abolition of the monopoly would be a stimulation of competition to the disadvantage of China, which would get a relatively poorer quality of the drug for a probably much higher price. And the Government of India had to consider the Indian interests as well. The removal of control would give rise to serious problems of the internal regulation, for example, to restore the old inland customs line which was abolished in 1879, for the benefit of the excise on local consumption. The discontinuance of the close connection of the Indian Government with the opium trade would intensify the moral and sanitary objections, because both India and China would be flooded by the more deleterious drug.

* See Strachey (op. cit p. 256 et seq.) for opinions of Sir J. Wade and the Shanghai correspondent of the *Times*, September 1889, on the question of opium production in China itself. "It is historically false to assert that we have made war with China with the object of forcing our opium upon her against her will and in spite of her protest that the opium trade was demoralising her people. The first Chinese war was caused by the desire of the Chinese Government to prevent the exportation of silver, which was believed to be impoverishing the country. The second war had nothing to do with opium." (op. cit. p. 255-6). Even to-day, doubts as to the Chinese Government's ability to control rigorously poppy cultivation in China are by no means unknown.

The injurious effects of opium consumption, while they cannot be denied, may yet be exaggerated. The harm consists not in a moderate, but in an excessive, use of the drug. In the case of the Sikhs, who are notorious for their heavy consumption of opium, it shows not very prominently bad effects; and it may be doubted if the Chinese decadence can really be ascribed entirely, or even largely to the opium sent out from India under government monopoly. Besides, the practice of modern governments to derive huge sums of revenue from the drink traffic, which is at least as harmful to Europe and America as opium is alleged to have been in China, made the protests of the English puritans against the Indian Government's monopoly of opium unspeakably ludicrous to those who could view the subject without an unnecessary alloy of sham sentimentality.

The Government of India pointed out, in 1882, the strongest objection they had to the abrogation of their monopoly. If they withdrew their monopoly and substituted an export duty for the sake of the revenue, Sir E. Baring calculated that the Government could not expect from an export duty of Rs. 600 a chest—higher duty was impossible in view of the known risks of the trade*—an income above £2·75 million, against the average of £5 million they were obtaining under the monopoly. The loss of such an amount would certainly involve additional taxation in India; and the Indian Government might well urge the obvious injustice of further taxing a people, whose average income per head was Rs. 27 per annum, for the benefit of another, even assuming, against all probability, that the imports into China would not be increased. At the time the Government had also to consider the effect of the cessation of the Indo-Chinese trade on the exchange, which, it was rightly held, would be most unfairly disturbed, and cause increasing embarrassment to the Indian Government. †

In 1882 the Government of India were entitled to some special pleading as regards the opium revenue. The exchange difficulty was becoming more and more chronic every year. They had passed through a disastrous war, and had incurred heavy famine expenditure. They could not, therefore, be very well pressed to give up the opium revenue—a net income of over 5 million pounds without any burden upon the Indian tax-payer—especially as about the same time India was called upon to forego another considerable revenue in response to the free trade agitation in England, the general 5 per cent. import duties. These special difficulties continued, and were accentuated in the remaining years of the century. When, however, exchange had been stabilized; when financial prosperity was evidenced by

* The average profit per chest to the Government was calculated at Rs. 859 on a sale price of Rs. 1,250. The export duty allowing for the trader's profit, could not be greater than Rs. 600 per chest.

† The opinion of the Government of India was expressed by the Finance Minister in these words in 1882 :—" The Government of India is at present quite unable to devise any means by which the loss of revenue consequent on a suppression of the poppy cultivation in Bengal could be recouped, and that until such means can be devised, the loss of the Bengal opium revenue would result in the normal annual expenditure of India being greater than its receipts, that is to say that India would be insolvent." And again "To make India to provide a cure which would almost certainly be ineffectual to the vices of China would be wholly unjustifiable."

repeated surpluses, the anti-opium agitation revived. The Chinese Government became more insistent in their complaints against the opium traffic, and offered to give concrete pledges of their willingness and ability to check the spread of the opium habit in the celestial Empire, if only the Government of India would undertake to co-operate. By an agreement made in 1907, the Government of India undertook in ten years to stop the export to China, by a progressive reduction of 5,100 chests every year in the opium destined to be exported to China, if the Chinese Government could show that on their side they would take energetic steps to put an end to the business altogether. In 1911 it was found that the Chinese regulations against opium were proving successful. The Government of India then undertook to apply the whole of their reduction to the Chinese trade by giving a certificate to each chest ear-marked for export to China, and allow China to exclude every chest not so certificated. In April 1913, the sale of certificated opium was stopped altogether, reducing at the same time the opium to be sold in other countries. The Government of India's position in this regard was reviewed once again in 1923 in a pamphlet entitled "*The Truth about Indian Opium*;" and though there is no question now of reviving the Indo-Chinese opium trade, the vindication of the Indian position in the past and as at present, as there given, is well worth studying.

At the present time, therefore, the opium revenue may be said to consist partly of monopoly profits from domestic consumption credited under the head of excise; partly of monopoly profits in auction sales of opium destined for countries other than China; and partly pass dnties levied on Malwa opium.*

The sacrifice of the opium revenue, though causing a strain on the Indian finances, and though known to be the result of English sense of moral justice asserting itself at the India office, did not, however, rouse the same opposition in India as the customs legislation due to the same forces, and involving the same financial consequences, had done a few years before. The loss of the opium revenue was spread over a nnmber of years; and for the first two or three years the restriction of supplies, leading to the high prices, did not allow the loss to be perceived. The leaders of Indian opinion had begun to perceive the moral responsibility of India, and the hands of the Government were strengthened by the co-operation in the new policy of the best representatives of Indian opinion.† In the years immediately pre-

* The first opium conference under the League of Nations in November 1924 inserted the following Article VII in its Draft Convention. "' The Contracting powers shall use their utmost efforts by suitable instruction in the schools, dissemination of literature and otherwise, to discourage the use of prepared opium within their respective territories, except where a government considers such measures to be undesirable under the conditions existing in its territory." This exception was added at the instance of the Indian and the Netherlands Governments.

† The following rather long quotation from the budget speech of the late Mr. G. K. Gokhale may be taken to voice the Indian sentiment on this snbject :—

" I confess I have always felt a sense of deep hnmiliation at the thought of this revenne, derived as it is from the degradation and moral ruin of the people of China. And I rejoice that there are indications of a time coming when this stain shall no longer rest on

[*Continued on p. 312.*

ceding the inception of the new policy, there was considerable relief given to the Indian tax payer by progressive reductions in the salt duty, and by raising the minimum of income exempted from the income tax. There was thus not the same intensity of feeling in India against the abandonment of the opium revenue in 1908 as there was in 1892, and so the new policy was carried into effect quite smoothly.

The opium revenue derived from local consumption still continues to be an important item in the total excise revenue. It now depends upon the strength of public feeling in the provinces whether or not this item of revenue will be abolished. Opium being still monopolised, Government charges the monopolist's price—the highest that can be paid. The sale of opium is subject to the same regulations as the vend of other intoxicants, and it seems that the policy of gradual extinction may come to be adopted in the case of opium as in that of other stimulants.

IV.—Forests

India possesses an enormous, unknown, unexplored wealth in her forests, which cover nearly 20% of the total area of India and Burma.† The

Concluded from p. 311]

us. The only practical question is how to put an end to this morally indefensible traffic with the least derangement in our finances. It has been suggested in some quarters that the British Exchequer should make a grant to India to compensate her for the loss of this revenue which will be entailed by the extinction of this traffic. Now, apart from the fact that there is not the slightest chance of England making such a grant, I think the proposal is in itself an unfair one, and ought to be strongly deprecated. No doubt there are important questions like the army expenditure in which India has to bear a serious injustice at the hands of England. The cost of civil administration ought to be substantially reduced by a large substitution of the Indian for the European agency in the public services. And if only justice were done to us in these matters we could let the whole opium revenue go and yet not feel the loss. But these questions have to be fought on their own merits and ought not to be mixed up with this opium question. So far as the opium revenue is concerned, whatever may the measure of England's responsibility in forcing the drug up on China, the financial gain from the traffic has been by India alone; and we must therefore be prepared to give up this unholy gain without any compensation from anybody, when in the interests of humanity this wretched traffic has got to be abolished." These sentiments could not have been better expressed by the most puritanical of the English non-conformists, or by their most eloquent. It must also be added that they were probably shared in full by the intellectuals in India, and the Indian National Congress in 1924 definitely recorded its opinion that the poppy cultivation should be restricted to medical and scientific requirements only. (cp. "*Opium*" by G. P. Gavit published in 1925).

† Statistics Relating to Forests

Forest Area in the Provinces

Name of Province.	Total Area. in sq. miles.	Area under Forests. in sq. miles.	1924-25 percentage.
Madras	143,220	19,232	13.4
Bombay	123,217	15,018	12.1
Bengal	76,755	10,169	13.2
United Provinces	106,720	7,305	6.8
Punjab	97,281	6,700	6.8
Burma	243,207	123,635	50.8
Bihar & Orissa	82,941	2,778	3.3
C. P. and Berar	90,927	19,671	19.6
Assam	53,825	21,495	41.4
N. W. Frontier	13,009	245	1.8
Baluchistan	54,228	785	1.4
Total ...	1,099,972	229,896	20.8

duty of the state to conserve forests was not recognised till after the time of Lord Dalhousie, who chalked out a comprehensive scheme of forest conservancy and sylviculture. A regular forest service, staffed by men trained in Germany or France, was organised in 1869; and a local training school, the Imperial Forests School of Dehra Dun, was started, which was raised to the status of a college in 1908. Local forest schools are also being multiplied. The object of the present forest policy is to preserve the forests from the wanton destruction which would otherwise have occurred inevitably under the pressure of a growing population, trade, and expanding building, as also in view of the influence the forests are known to exercise on the movement of the rain-bearing currents.* They are under three heads: the reserve forests, the protected forests, and the unclassified forests. In the first the regulations are very minute as to the use of forest area by the neighbouring population, the grazing of cattle, or the removal of produce. Their effect has been well summed up in the saying that in the reserved forest everything which is not specifically permitted is an offence. This naturally causes considerable hardship to the population, which has for so many generations been dependent for the food of their cattle, and even of themselves, upon forest produce.† In the protected forests a greater latitude is allowed. Nothing is an offence against the forest laws in their case which has not been specifically prohibited. These are areas in which Government seem to be experimenting, deliberating as to whether they shall be classed as reserved forests or not. The last group of forests is almost an unknown quantity from the standpoint of their utility, and the consequent necessity to preserve them under stricter regulations. Exploration or investigation is being continually carried on; and as the result of this investigation the unclassed area may suitably be classed as reserve or protected forests.‡

V.—Forest Finance

The Indian Taxation Committee, speaking of the forest revenue of the Government of India, write:—

> "The case of forests is not dissimilar. These are under the control of the Government, who have something approaching a monopoly in parts of India, but not a complete one. The produce is sold at prices which do not compare unfavourably with those charged by private parties. The purchaser in every

* After a careful inquiry into the forests policy between 1904–1914 the Government of India, in their circular of 27th February 1915, indicated their main conclusions thus:—

(a) The effect of forests on rainfall is probably small. (b) The denudation of soil owing to the destruction of forests may, so far as India is concerned, be looked upon as an established fact. (c) As regards the effect of forests on rainfall and the underground water supply, there is nothing to justify and change in the principles on which the forest policy of the Government has been hitherto based.

(Cp. *The Work of the Forest Department in India* p. 9.)

† During the administration of Lord Reay in Bombay, when the new forest legislation was introduced, there was a violent agitation among the people concerned. The feeling of oppression is not even now extinct.

‡ Hence the variations in the area statistics of the forests in the several provinces, when viewed over a number of years.

case obtains a *quid pro quo*, and is under no direct compulsion to buy. It appears to the committee that on the whole there is no element of true taxation in the forest revenue, and this also does not fall within the scope of their inquiry."*

It is therefore a form or source of public revenues, which, in our judgment, would yield considerably more than at present, if the obsolete and unprofitable, as well as uneconomical, basis for obtaining this revenue through the intervention of private enterprise were abandoned, and the forests of India were fully exploited as public domain with all their possibilities of intensive industrialisation.

Under the present system, Forest revenues are derived from the royalties on, or the sale proceeds of, the timber or other forest produce, and by the issue, at specified rates, of fees to graze cattle, or to extract for sale timber, charcoal, firewood, bamboos, canes, and other forest produce. The following table shows the growth of this revenue.†

VI.—Statistics‡ of Forest Revenue and Expenditure

(*In thousands of rupees*)

Year.	Revenue.	Expenditure.	Year.	Revenue.	Expenditure.
1864–65 to 1869–70	37,40	23,80	1909–10	260,25	149,20
1869–70 ,, 1873–74	56,30	39,33	1910–11	274,05	152,44
1874–75 ,, 1878–79	66,60	45,76	1911–12	290,57	160,46
1879–80 ,, 1883–84	88,17	56,09	1912–13	322,10	172,08
1884–85 ,, 1888–89	116,68	74,26	1913–14	333,01	175,48
1889–90 ,, 1893–94	159,49	86,03	1914–15	297,10	182,06
1894–95 ,, 1898–99	177,15	97,96	1915–16	311,16	185,92
1899–1900	190,09	110,24	1916–17	370,61	187,44
1900–01	197,70	111,60	1917–18	409,69	211,57
1901–02	178,23	107,46	1918–19	468,18	288,75
1902–03	194,71	112,49	1919–20	536,76	317,63
1903–04	222,16	121,66	1920–21	541,43	364,20
1904–05	240,29	129,67	1921–22	583,16	408,52
1905–06	266,74	142,58	1922–23	552,14	395,72
1906–07	264,91	140,63	1923–24	544,91	349,30
1907–08	258,63	145,12	1924–25	567,44	354,32
1908–09	254,56	147,26			

These figures do not include that portion of the forest produce which is given away freely, or at specially low rates, and which was valued in 1924–25 at Rs. 137'13 lacs. The net revenue would be very much different if this surplus were added. The figures of expenditure include conservancy charges as well as the general charges of direction and supervision. The expenses of the forest college at Dehra Dun and the ranger school are also included. They amount to about three lacs.

*Cp. para 14, op. cit.

† The revenue and expenditure figures before 1911 include the receipts from, and charges of the Keddah or elephant catching department in Burma. It was however a losing concern and the Keddah Department has since been abolished.

The Indian Industrial Commission of 1918 remarks *apropos* of the forest revenue: "As the above figures will have shown, the natural forest estate is of vast extent and value; but a scrutiny of the output per square mile proves that its actual yield was hitherto lagged behind its possibilities, and is in most areas greatly in defect of what the natural increment must be. The chief needs of the forest department are undoubtedly the development of transport facilities, the exploitation of forests on more commercial lines, and the extension of research and experimental work which should, when necessary, be carried out on a larger scale, and under commercial conditions."

‡ These figures have been taken from the *Statistics relating to Forest Administration in British India* for 1923–24, and from the Decennial Statistical Abstracts.

VII.—Critique of the Indian Forest Department

As would be evident from the note appended, the defect of the forest department is that it has not yet learnt to look upon the estate it administers with any eye to its industrial possibilities.* The old view of forests as inducing rainfall is not scientifically proved to be erroneous; but to neglect altogether the immense hidden forest wealth, or to suffer it to be wasted, cannot be in the best interests of the country. The table in the margin gives the value of the Indian forest produce as valued at the port of shipment. Owing to the demand for forest produce caused by the war, the Indian Munitions Board helped to encourage the erection of improved factories for the better utilisation of the forest produce. But even so, we are far from the position when we can say India's potential forest wealth is explored to the utmost. The total value of the forest prodnce was made up in 1921–22 as shown in the margin. All competent authorities agree, however, that this by no means represents our total capacity. There has not yet been any reliable estimate of what the Indian forests can produce if worked to the best advantage without in any way exhausting the forest wealth.§ But the experience of the few efforts made in developing forest industries points unmistakably to the immense possibilities which it would be rash to endeavour to estimate on the present most insufficient data. Thus the pine resin industry, starting from a very small beginning in the Punjab and the United Provinces, had grown by 31st March 1919 so as to give a total resin collection of 125,633 maunds, the operations extended over 97,525 acres of

Year.†	Rs.
1912–13	4,69,80,613
1919–20	11,78,26,630
1920–21	10,94,79,350
1921–22	9,98,56,627
1922–23	12,79,97,378
1923–24	12,44,54,366

	(In lakhs of rupees)‡
Lac (1⅓ times the export value) ...	1,196
Caoutchouc (1⅓ times the average of raw rubber export in the last three years)	200
Myrobalans (1⅓ times export) ...	87
Turpentine and resin... ...	26
Sandalwood oil (1⅓ times the value of 3 years average export) ...	42
Other oils (1⅓ times the value of 3 years average export) ...	29
Timber and fuel (twice the gross receipts from wood to the Forest Department)	956
Grazing (twice the gross receipts from wood to the Forest Department)	58
Forest produce given away gratis or at low rates (twice the value estimated by Forest Department)	170
Miscellaneous	36
Total ...	2,800

* "The forest estate is not being fully worked. Hence waste and decay are considerable. The present output is only 345,000,000 cubic feet, while at least 1,200,000,000 could be harvested; thus an increment of 855 million cubic feet is being carried forward annually; and taking 80 years as the average rotation, 10½ million cubic feet represent loss by natural wastage and decay annually." (Cp. *Statement of Forests Conditions in British India*, p. 21).

† Cp. the *Statistics relating to Forest Administration in British India*, 1923–24, p. 20.

‡ Cp. *The Wealth and Taxable Capacity of India*, pp. 149–159, for the reasons for the above estimate. See also pp. 327–329 *ibid.* for the possibilities of a proper and intensive system of forest development.

§ "Fifteen years ago it was estimated that in Germany, work in the forests provided employment for 1,000,000 persons, while 3,000,000 persons, earning £30,000,000 a year, were employed in working up the raw materials yielded by the forests. The Indian census of 1911 gave, 1,191,367 people and their dependents as so employed in British India, and a further 394,097 in the native states." (op. cit. p. 36).

forest, with 4,000 operatives. On a total capital investment of Rs. 11,22,571, the year's net trading profit amounted to Rs. 7,75,575 out of a gross revenue of Rs. 15,72,414.* Against such successful experiments we might point out those which are undeveloped. Thus India consumes annually something like 75,000 to 80,000 tons of paper, of which the Indian mills supply about a third, or during the war, about 30,000 tons. We import on an average Rs. 1,32,00,000 worth of paper and paste-board, which during the war was in excess of Rs. 2 crores. We import in addition about 13,250 tons of paper pulp. There is no doubt but that if the enormous supplies of bamboo and elephant grass available in India were fully utilised, India would produce more than the 50,000 tons she now imports, and thus keep the 2 crores of rupees within the country. Another forest industry which may be developed is that of matches.† India imported in 1917–18 over 18 million gross of boxes valued at about 8½ million pounds, or more than eight times the pre-war import; and it is not impossible to believe that further extensions are possible, not to mention the manufacture of rubber in India in all the thousand and one ways in which it is made useful.

In this summary we necessarily leave out the larger industries dependent on the proper working of forests. Wood distillation and extraction of oil from sandal wood, which has now been made a success and almost a monopoly by the Native State of Mysore, are examples in point, even if we leave out still larger industries like cabinet-making, ship-building &c. As estimated elsewhere, the full development of the forest produce of India would involve a capital outlay of Rs. 50 crores; but the results are bound to repay this outlay several times over, especially if this exploitation is made by Government or local governing bodies adjoining.‡ After the years of initial

* "*The Indian Forester*" for April, 1916, pp. 187–201, brings out the fact that whereas a chir-pine tree yields at maturity at most Rs. 30 gross revenue, the gross value of its resin comes to Rs. 138, inclusive of compound interest at 3½% per annum.

† In 1918–19 out of the total imports of over 18 millions gross of matches, Japan alone supplied over 15 millions. By a careful manipulation of the trade, by a skilful combine of their manufactures and shippers, the Japanese have practically captured the whole of the Indian match trade at the cost of Sweden and Austria.

‡ The following are instructive tables as to the capacity and possibilities of our forest industries, compiled from the *Statement of Forest Conditions in British India*.

Utilisation of forest produce.	Cub. ft.	Rs. 1918–19
1 Railway sleepers ...	8,000,000	60,00,000
2 Timber	79,000,000	7,80,00,000
3 Firewood	173,000,000	52,50,000
4 Bamboo (number) ...	150,000,000	15,00,000
5 Lac (tons)	20,000	1,80,00,000
6 Myrobalans (tons) ...	52,000	15,19,000
7 Cutch (tons) ...	20,000	6,00,000
8 Sandalwood (tons ...	550	6,60 000
9 Grass and fodder ...	...	75,00,000
10 Resin	2,000	7,86,000
11 Turpentine (gls.) ...	160,000	3,50,000
Total ...		12,01,65,000

Forest Industries.		Value. Rs.
Railway sleepers	...	3,00,00,000
Saw mills (155)	...	7,80,00,000
Venner & T chests	...	6,00,000
Furniture (35)	...	...
Bobbin factory	...	12,00,000
Match factory (6)	...	6,30,000
Firewood, etc.	...	52,50,000
Resin, etc. ...	...	6,75,000
Total	...	11,63,55,000

The possibilities of extension are at least 50 times as great as the present position indicates.

construction, the revenue from forests would in all probability not fall below Rs. 10 crores, or, allowing for the interest on capital, Rs. 8 crores net.*

* In regard to the agency best calculated to develop the forest resources, the Government of India have laid down in their resolution reviewing the quinquennial Forest Administration (1909-10 to 1913-14):—

"In forest administration the object in view is two-fold: first to conserve and improve the forests...and, secondly, to secure to the tax-payer the greatest immediate benefit from their commercial working. To obtain the best commercial results, departmental or private agency should be employed as circumstances dictate, and provided always the Government receives a fair share of the profits earned, **private agency should be freely employed.** But when this is done, the term of the contract should on the one hand be sufficiently long to enable the initial outlay to be recovered, while on the other hand provision should always be made for a revision of the rates of royalty at stated intervals, so that Government may not be deprived of its fair share of any rise in prices which may take place. Should it be found impossible to employ private agency on these terms, departmental working should be adopted; and if this cannot be undertaken by the trained staff without prejudice to its work of conservation and improvement, there seems to be no reason why a separate staff specially trained in commercial exploitation should not be employed." (P. 15, *The Work of the Forest Department in India*)

For reasons which seem to us conclusive, we find no justification for the employment of any private agency at all in this great task of conservation and exploitation of national resources. Apart from a legitimate apprehension of giving rise to indefensible vested interests, as also the fears of an intense extension of labour troubles, we consider the use of private interests as financially prejudicial to the interests of the community, inasmuch as the great difficulty in the way of developing sylvan industries is the absence of adequate, economic means of transport. The only agency that can supply this want is some form of state activity, the benefit of which, however, will almost wholly go to such private entrepreneurs. Again, the latter will demand some sort of guarantee of interest, or undertake only those industries which have been demonstrated to be successful by the costly pioneer efforts of the Government, all which would impose an unfair burden upon the community at large. Finally owing to geographic reasons, forest industries will be most economically developed only on a monopolistic basis, which needs but to be mentioned to be rejected as far as private agency is concerned.

CHAPTER X

Irrigation Dues

I.—The True Nature of the Irrigation Revenue

The question as to the true nature of the irrigation revenue, particularly as to whether there is any element of taxation proper in it, is a subject of keen controversy. The charges of water supplied for irrigation purposes are considered officially in the nature of prices for definite service rendered, or rather commodity supplied; and consequently there can be, according to this official view, no element of taxation in this revenue. We have already assigned some reasons, while speaking of the classification of public revenues, why the profits from the monopolies of the Government of India, particularly railways and irrigation works, cannot be treated entirely as prices for commercial services. There is no true option to the irrigation rate-payer to go without that water, and so avoid the payment of the Government dues, for to do so would be suicidal. True, he can dig his own well, but not in land along which a Government canal passes, and which irrigates all the neighbouring land. The analogy of the British post office also leaves the question undecided; for economists have doubted if the entire postal revenue in Britain should be considered exclusively as a price for a service rendered.* The Indian Taxation Enquiry Committee is unable to come to a definite conclusion on this matter, and is content to leave the question on the following basis:—

> "A great deal of controversy has raged over the question whether a government which has a monopoly of irrigation and supplies water to the persons who benefit by irrigation works should charge just what it costs to supply the water, or a fair commercial profit, or as high a rate as those benefited can afford to pay. A corollary arising out of the controversy is the question whether, where a profit is realised, there is an element of taxation.
>
> The case is of course different from that of the railways and the post office, inasmuch as those services are of benefit to the community as a whole, whereas in the case of irrigation the benefit provided by the use of the credit of the general tax-payer enures to the holders of certain particular lands. The Committee are divided in opinion as to whether the charge for water involves an element of taxation or not. It falls, however, essentially within the scope of their enquiry in view of its intimate connection with the land revenue, and

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*Cp. the opinions collected by the Taxation Committee *re*: the British postal revenue. "If any part of the gross revenue is a tax,............In considering the 'equity of taxation' it is not desirable to adopt any narrow view of the meaning of taxation, since the action of the state must be considered as a whole. I should therefore not be inclined to exclude the whole or any part of the post office gross revenue from the present enquiry."

Prof. Bastable, Prof. Sidgwick and Lord Farrer are all willing to consider at least the surplus of the post office revenue as taxation.

of the specific inclusion of water rates within their terms of reference, and therefore they propose to treat it on this basis, taking for practical purposes the net profit on the undertaking as a whole as representing the element of taxation."*.

In view of the fact, however, that the irrigation dues are charged by the State as a monopolist's prices, and that it is sought to coordinate them with the value of the crop raised by means of this water ; and conversely, because the charge is not equal just only to the actual cost of the service rendered, it is impossible not to regard the whole of the irrigation revenue of the Government in India as essentially in the nature of a tax.

II.—*Irrigation vs.* Railways

The Irrigation Department has, for a long time after the transfer of the Government of India to the British Crown, been regarded as primarily a spending department. Until after the famines of 1897 and 1899, the attention of the Government of India was not claimed in equal proportion by Irrigation Works along with the Railways. Apart from the effects of the activities of the Public Works department upon trade and industry, and indirectly upon the wealth of the people, the financing of railways and irrigation works has given rise to considerable and heated controversies as to the exact limits of the sphere of state action, the wisdom of meeting such charges out of ordinary revenue or out of borrowed funds, &c. In the financial survey of these works attempted in this chapter, we can but glance briefly at the important considerations involved in shaping the public works policy as a whole, and that too only in so far as they influence the financial side of the enterprise.

The importance of irrigation works in India has, perhaps, not been fully appreciated by her English rulers. In their own island home, with few shallow streams and perennially damp weather, they naturally could not have any proper appreciation of the value of an artificial water supply to agriculture. In this country, however, large tracts of land, like the desert of Sind and Rajputana or the districts of South-West Punjab, are practically rainless, and offer no facilities to agriculture unless watered artificially. Others again there are, which, like the uplands of the Deccan, make cultivation precarious to a degree, owing to the irregularity of the rainfall and the consequent exposure of crops for long intervals to a blazing sun. Some crops, moreover, like rice and sugarcane, require a sufficiency of water, which cannot be had, except in the most favoured regions, but by means of irrigation. Intensive cultivation due to an increasing pressure of population has led to double crops being grown every year on the same bit of land ; but in many regions while the Kharif or the autumn harvest can be raised without the aid of artificial water, the Rabi or winter crop would be impossible if it depended entirely on rain-water for its growth.

* Op. Cit. para. 22.

Owing to these conditions, irrigation works have in this country always claimed the best attention of the rulers. Even now some of the most important canals of Northern India and reservoirs in the South are nothing more than the restored works of the earlier rulers kept in repairs; and when the rulers could not or would not undertake vast projects of perpetual benefits, the cultivator would himself construct a little well just enough to water his own little bit of land. In the folk-lore and imagery of our country there is no figure so familiar as the primitive well. Wells and tanks are the earliest of our irrigation works. The simple inundation canals of Sind and the Punjab are probably next in order of time. The Pathans and the Mughals were the fore-runners of the British in undertaking irrigation works on a large scale. The truly British contribution to the irrigation system of India consists in the large works, constructed for the purpose of utilising the surplus waters of large rivers, though even in this direction the Moghul fore-runners of the British have left imperishable monuments of their desire to consider and provide for the welfare of the people ruled.

III.—History of Irrigation Works under British Rule in India

In the early days of the British rule in India, they necessarily had to work upon the inheritance that the British Government had received from the former rulers. Thus the Great Barrage or Grant Anicut had been built across the width of the Cauvery in the Madras Presidency, long before the advent of the British. The genius of Sir A. Cotton perceived the value of this relic of indigenous rule; and his tenacity helped to complete its utility by the construction of an Upper Anicut across the Coleroon, thus giving the full level required for the utilisation of the Grand Anicut across the Cauvery. The irrigation works in the deltas of the Krishna and the Godavari were constructed by the same engineer* at a cost of 3 crores of rupees to irrigate millions of acres of land. In the northern provinces, following the models left by the Moghul rulers, Sir Probin Cautley constructed the great Ganges canal, which takes off from the river at Hardwar, and which in magnitude and boldness of design has not been surpassed by any other irrigation work in India or elsewhere. The river system of the Northern Indian plains afforded peculiar advantages for the construction of bold, vast canals, which, like the Chenab Canal of the Punjab, with their several hundreds of miles of channel, irrigate millions of acres, often reclaiming large tracts of waste lands, and making them among the richest of the cultivated areas of India. Compared to the magnificent works of the Punjab and the United Provinces, the Bombay works, like the lake Fife or lake Whitney, pale into insignificance. But the Madras triumph in the reservoir at Periyar, which, constructed on the outer slopes of the ghats, carries the water of the river by means of a tunnel through the intervening hill, thus turning the river back on its own

* So completely was Sir Arthur Cotton identified with irrigation projects in India, that frivolous people in England used to suggest he had water on his brain. That he could resent the impertinence, even when it was offered by Lord George Hamilton, is shown by the letter, he wrote to the Secretary of State and quoted in his life written by Lady Hope, his daughter.

watershed to fructify large tracts, may easily rank among the first of the irrigation wonders of India, and perhaps of the world.

The East India Company had hardly a settled policy to speak of in the financing of irrigation as in any other directions, though, after the conquest of the Punjab, the great work of the Baree Doab canal was undertaken at the instance of Sir John Lawrence and Lord Dalhousie.* Whenever the revenue permitted it, a great personality like Sir J. Lawrence or Sir A. Cotton could manage to squeeze out some portion to devote it to irrigation. But the absence of a settled policy allowed these works to be undertaken spasmodically, with little good result comparable to what might be expected. The diligent search for directions in which retrenchment could be made after the Mutiny prevented closer attention being given to irrigation works in early years of the direct rule of the British Crown. The whole cost of construction and maintenance was charged to the revenue; and even when the distinction between ordinary and extraordinary public works had been introduced in the sixties,† the proper distinction between capital cost and maintenance charges was not always understood or observed; while the superior claims of the railways, urged by a powerful interest with the vested rights of guarantee, were beginning to monopolise the attention of the Indian Government, so that in spite of Sir Arthur Cotton's suggestions that water carriage would be cheaper and more suitable to Indian conditions,‡ all irrigation and navigation works received but perfunctory attention. The losses suffered by the Orissa Water Works Company, the question of sovereign rights in charging water rates, and other such problems, led to an early decision in the viceroyalty of Sir J. Lawrence that all irrigation works should be constructed out of public funds.

Further elaboration of financial policy with reference to irrigation works was postponed during Lord Lawrence's time, for the superior demands of barracks for European troops prevented any substantial consideration

* Lord Hastings wrote, as early as 1815, after his inspection of the Jamuna canal :—" I will only say that my own inspection has fully convinced me of the facility and policy of immediately restoring this noble work. Setting aside the consideration of its certain effect in bringing into cultivation vast tracts of the country now deserted, and thereby augmenting importantly the land revenne of the honourable company, the dnes to be collected from the distribution of water from it would make a most lucrative return." (Minute, Sept. 21, 1815, quoted Dutt op. cit. p. 166.) This, however, was with special reference to a given project, and can scarcely be called a general prononncement of policy,

† The following is an analysis of the public works grant in 1862-3 :—

		£
1.	Work of Public Improvement...	2,380,000
2.	Railway Snpervision and Cost of Land	132,500
3.	Loss by Railway Exchange	366,300
4.	Civil Bnildings	570,000
5.	Military Works Ordinary	650,000
6.	,, ,, Extraordinary...	50,000
7.	Income (1%) Tax Appropriation	380,000
	Total ...	4,528,800

‡ Before a select committee of the Honse of Commons appointed January 28, 1878, Sir Arthur Cotton deposed that the railways did not provide food for man and beast, did not carry the whole traffic of the country, did not carry it cheaply enough, did not pay interest on cost and debt, did not drain the country; and did not provide drinking water for the country. He proposed 3 main lines of navigation canals: (1) Calcutta to Karachi up the Ganges and down the Indus; (2) to Coconada—Surat up the Godavary and down the Tapti; (3) Up the Toongbhadra and Coimbatore.

being given to them. The Orissa famine, and later on the Bengal famine, diverted attention to irrigation at first; but the necessity of carrying food to the famine-stricken areas soon deflected it once again to railways. The later famines and the war with Afghanistan gave no more surplus, whether from regular revenues or borrowed funds, to be devoted to irrigation. The marginal table shows the total amount spent on irrigation works between 1870–80. Against the £125 million* spent on railways, irrigation barely got about 10% or less. The Famine Commission of 1880 did, indeed, report the irrigation works to have been of—

Year.†		£
1870 ...	...	2,695,465
1871 ...	...	718,438
1872 ...	...	983,854
1873 ...	...	770,920
1874 ...	...	1,198,682
1875 ...	...	1,235,391
1876 ...	...	1,105,445
1877 ...	...	943,423
1878 ...	...	806,084
1879 ...	...	784,654
1880 ...	...	598,837
Total	...	11,851,193

"a great advantage to the state, regarded merely from the direct financial return on the money invested, in increasing the wealth of the country in ordinary years, and in preventing or mitigating famine in years of draught."

But the continued fall in the value of the rupee made the Government of India unwilling to undertake any borrowing in England in order to avoid piling up sterling indebtedness; and the construction of large works out of current revenues was not to be thought of. The Russian scare and the increase in the army; the frontier troubles and the loss of customs revenue; the famines of 1897 and 1899, and the new scourge of plague, strained almost to snapping point the resources of the Government of India. Hence, before the next great Indian Irrigation Commission reported in 1903, the position was: that out of 226 million acres annually under crop in the provinces of British India, 44 million acres or about 20% were ordinarily irrigated. Of these 18½ million acres or 42 per cent. was watered by public irrigation works, (canals and tanks); while the remaining 25½ million acres or 58 per cent. by private works. Of these more than half was irrigated by wells. Between 1875 and 1900, the area irrigated from state works had increased from 10½ million to 18½ million acres, and that from private works by 3 million acres.‡ The financial results are shown in this table—

Class of Works.	Capital outlay to end of 1900–01. Rs.	Total Revenue in lakhs. Rs.	Net revenue less interest. Rs.
Major works	36,62,72,000	2,59,70,000	1,13,15,000 3%
Minor works with cap. a/c	3,20,04,000	19,18,000	6,38,000 2%
Other minor works	...	87,87,000	87,87,000
Total ...	39,83,76,000	3,66,75,000	2,07,40,000

* The expenditure on railways no doubt continued during this period as before; but as will be seen below, it must be mentioned that for the first time during this period, the Government of India began to consider the possibility of raising the wind in India for their public works activity. See the section on the Debt of India, and the financial statement of Sir E. Baring in 1882.

† Cp. Dutt, p. 362.

‡ These figures do not include the area under irrigation in the Indian States. The total area irrigated in the whole of India was estimated by the Commission at 53 million acres—19 million from Canals, 19 million from wells, 10 million from tanks, and the rest from miscellaneous sources.

The Commission reported that the field for the construction of new works of any magnitude, of which the net revenue would leave a surplus after paying interest charges, was restricted to the Punjab, Sind, and parts of Madras. These works, they recommended, should be constructed as fast as possible, not merely as they would be profitable investments, but also because they would increase the food supply of the country.* As regards works designed as a protection against famine, the Commission worked out comprehensive proposals for a general policy, by taking first the case of a single district frequently experiencing famine; calculated the cost of famine relief in such a district, and also the cost of possible irrigation works for it; and then made their recommendations on a comparison of the two. Thus, taking the single district of Sholapur, which is the most famine-susceptible in the whole of India, the Commission calculated the average annual cost of famine relief in it at 6 lakhs of rupees. Making allowance for the fact that it is more advantageous to prevent famine than to relieve distress when it has occurred, they estimated that on such a basis the State would be justified in protecting such a district at the cost of Rs. 221 per acre. For the general protection of the Bombay Deccan, they recommended the construction of canals from storage works on the *ghats*, where the rainfall has never been known to fail even in the driest years. It would impose a permanent annual burden of 74 lacs on the State through the excess of interest charges on the capital cost over the net revenue produce from these works. On the other hand, if and when the suggested works were all constructed, there would be a considerable reduction in the cost of famine relief in future years of famine, estimated by the Commission at Rs. 31 lakhs. This would leave a net difference against the State of Rs. 44 lakhs a year,—an amount which may well be considered as no more than the proper price paid for protection and insurance against famine, and other incidental advantages resulting from this programme.

Besides recommending the restoration or reconstruction of sundry other works, the Commission further sketched a rough programme† of new major

* The test of a productive work requires that **within ten years of its commencement, the project should meet all the working expenses, as well as the interest charge from the date of its initiation inclusive.** None of the railway companies could have satisfied the rigid test laid down for productive irrigation works, or shown a satisfactory position after meeting all charges that the irrigation works show. The whole cost of these works, it may be noted, including any extension or improvements, is met out of capital funds loaned to the project.

† The following are among the chief works suggested by the Commission:—

(1) The Punjab triple project—the Upper Jhelum, the Upper Chenab, and the Lower Bari Doab at a total estimated cost of Rs. 10½ crores, sanctioned 1914, now completed.

(2) The Sind Sagar Canal: deferred.

(3) Woolar Lake Storage—Kashmir—suggested by the Commission in aid of the Punjab triple project—was dropped by the Government in 1905, but has since been sanctioned.

(4) Sutlej Valley Project: under construction.

(5) Sind irrigation by Sukkur Barrage and canalisation of the Indus—at first not approved by the Secretary of State, but subsequently sactioned in 1924–25.

(6) Nira canal in the Bombay Deccan, estimated to cost 257 lakhs, was sanctioned as a protective work in 1912, and completed in 1923. The Gokak canal in the same region recently sanctioned as a protective measure is estimated to cost Rs. 197 lakhs.

In Madras, the United Provinces, and Central Provinces, similar suggestions were made by the Commission which are at various stages of development.

works to be constructed in the different parts of India at a total cost of 44 crores of rupees. When completed, they estimated these works to result in an addition of 6½ million acres to the irrigated area.

The net effect of the Commission's recommendations was to provide the Government of India with a uniform policy, in place of the spasmodic efforts which characterised their previous endeavours in this field. With very few exceptions, the recommendations of the Irrigation Commission were accepted in their entirety, and in some cases the Government programme has been in excess of the Commission's recommendations. But for the untimely outbreak of the war, and the consequent strain on the finances of India, several projects, which had in the last century been pooh-poohed as impracticable, would have been put into execution. It is to be hoped, therefore, that the return to normal conditions will be signalised by a resumption of the irrigation programme still more vigorously than in the last few years.

But while emphasising the need for a vigorous irrigation policy, we must not in any way ignore the necessary limitations which the nature of the case imposes upon large new works. (1) A great portion, probably more than one-third of the total area irrigated, is watered by wells constructed by each cultivator himself. So long as the average size of the Indian agricultural holding remains below 8 acres, the well will continue to have an advantage over the canal water, not only because of the superior fertilising power of well-water, but also because of the relatively greater cost of the canal-water. The financing of wells hardly enters at all into the accounts of the Government of India, except through the Takavi loans—or, if a land bank was started, through the loans made by an agricultural land bank established under the guarantee of the State.* (2) Then, again, though we in India have not yet paid sufficient attention to the possibilities of inland navigation, it is not impossible to believe that the greater costliness of railway carriage and railway construction may lead to the more extensive developments of canalisation of our important rivers for purposes of navigation.† We are already finding a congestion on the Indian railways which is inimical to the movement of goods or the more bulky produce like rice or seeds or coal. It is quite possible to believe that the railroad may eventually have to be supplemented by the river carriage. But if the rivers of India are to admit of canals constructed for navigation purposes, it is conceivable that the irrigation canal proper may suffer. Twenty years ago the opinion seemed to be unanimous among the experts that India cannot afford to construct navigation canals in view of the requirements of irrigation. At the

* According to the latest estimate, the area irrigated by wells alone, which are almost entirely private works, is reckoned at 30% of the total irrigated area, or not much short of 20 million acres in irrigation. The cost of a well varies according to the character of the well and the soil it is dug in. Taking an average cost at Rs. 500 for the whole country, and premising that the country as a whole needs 10,00,000 wells, additional outlay of 50 crores is needed for agriculture.

For a working scheme of a Land Bank in India, cp. the present writer's *Indian Currency Exchange and Banking*.

† Cp. para. 154–5 of the Acworth Committee's Report on the Indian railways, which recommends a scientific investigation of the possibilities of inland navigation. See also Part IV of the present writer's *Trade, Tariffs and Transport in India*.

present time the problem of internal navigation is under serious consideration by the Government. If the project of linking up the main rivers of India for navigation is accomplished, we would have to reconsider our whole policy of canalisation for irrigation alone. (3) Supposing, finally, that we have completed all possible irrigation works on a large scale; and assuming that the amount and the value of crops have been much increased, and that a reliable insurance against famine guaranteed; we must in normal years yet provide for the removal of the surplus foodstuffs. Railways or navigation canals there must be, whatever may be the vigour with which irrigation works are prosecuted. And, from a purely financial standpoint, it is also clear that if all classes of productive public works are to be constructed out of borrowed capital, the amount available for irrigation must necessarily be the remainder after the other works have been provided for or at least in proportion. This would also be an effective limitation on the most enthusiastic or ambitious irrigation minister.

The foregoing remarks must not be taken to imply any doubt of the value of irrigation works in India, nor any approval of the relative indifference with which these works were treated by the Government of India all through the nineteenth century. It is a moot question, discussed a little more fully below, whether, considering the poverty of India, the Government of India were well-advised to construct railways at the rate and in the way they did, while irrigation or navigation works were neglected. But the present question of irrigation finance must be taken to be indissolnbly involved in the agrarian problem as a whole. According as the size of the average holding is large or small would the requirement of irrigation be different and so also the financing.

IV.—The Irrigation Revenue

The irrigation dues of the Indian Government are derived almost wholly in the form of either enhanced land revenue, or owners', or occupiers' rates. They necessarily vary very much from province to province, and also in one and the same province according to the crop irrigated, the quantity of water required, the time at which it is required, the intensity and constancy of demand, the quality of soil, and the value of this service in increasing the ont-turn. Thus in Sind, the ordinary land revenue includes also the charge for water, 9/10 of the assessment being considered as dne to the canal water supplied. In other parts of the Bombay Presidency and in Madras, different rates of land revenue are assessed according as the land is irrigated or otherwise, the assessment on the former class of land including also the charge for water. Over the greater portion of the continent of India as a whole, water is paid for separately, the area actually irrigated being measured, and a rate charged per acre according to the quality of the crop raised. Rates are, generally speaking, lower when water is to be "lifted" to the land owing to the higher level, than when water "flows" on to the soil by the mere action of gravitation. Many have thought in the past that by these methods some injustice is inevitably

entailed upon either the State which supplies the water, or the cultivator who uses it; and hence alternative methods have been suggested, and sometimes tried, *e.g.* renting for an annual sum certain outlets of water, or charging according to the volume of water actually used. But these trials have not yielded more satisfactory results than the modes of charging outlined above. In parts of Bengal and the Central Provinces, the system of long lease is in force, whereby the cultivator pays a small rate for a term of years, irrespective of whether or not the water-service is actually received by him. The normal rainfall in these provinces is usually so abundant, that the cultivator is not every year under the unavoidable necessity of using irrigation water, as is the case, for example, in Sind or parts of the Punjab desert. Government, however, cannot undertake irrigation works on a large scale, unless there was some certainty of a constancy in demand; and they are therefore obliged to insist on compulsory service of the canal water supplied by them, which becomes a hardship and a burden to the cultivator whom nature helps so richly. As a way out of this dilemma, the system of long term leases has been invented for the special behoof of these well-endowed provinces. Under this system, the cultivator escapes the obligation of paying a full rate for the whole year, whether or not he needs the water, and Government also obtain a guarantee of a minimum return to their investment, whether or not there is any demand for their service. Elsewhere Government guarantees a sufficiency of water supply for a given crop; and if the crop fails to mature, or if its yield is much below the normal, the irrigation dues are remitted partially or wholly, as the need may be.

As for the actual rates, in the Punjab they vary from Rs. 7½ to Rs. 12 per acre for sugar-cane, Rs. 4 to 7½ for rice, Rs. 3 to 4¼ for cotton, and Rs. 2 to 3¼ for pulses and millet. On the other hand, near Poona, for lands raising sugar-cane, as much as Rs. 50 per acre is paid; but this is exceptional, is confined to a very limited area, and is at all possible because the cultivator can raise a crop which pays as much as Rs. 800 per acre. In other parts of the Moola canal, the rate varies from Rs. 40 per acre to Rs. 12, and in the rest of the Bombay Deccan Rs. 25 to Rs. 10 per acre. In Madras the maximum rate for sugar-cane is Rs. 10, and between Rs. 5 to Rs. 2 per acre for rice. In both these provinces irrigation is confined almost wholly to rice. In the Punjab, where wheat also is grown by irrigation, the rate varies from Rs. 7 to Rs. 3/4, the ordinary wheat charge varying from Rs. 4/4 to 3/12, and for fodder crops from Rs. 3 to 2/8 per acre. The average rate realised from the major irrigation works of all kinds is Rs. 3/8 per acre.

The table appended below (page 328) shows the details of the public irrigation works, both major and minor. The working expenses show a lamentable tendency to increase, as shown by the later figures, on which it is accordingly necessary to keep a most jealously watchful eye. One reason, perhaps the one sufficient reason, for this increase is the latter

day forces making for an increase in salary and establishment charges, which demand an instant revision for retrenchment in all departments. The higher cost of materials may also explain in part the increase in working expenses. For a proper appreciation of these figures, it is necessary to bear in mind the different characteristics of the different works. The productive works are those of a remunerative character undertaken in the interests of the general agricultural development of the country. Both their first cost, and any subseqnent expenditure on extensions and improvements, are met from loan funds. Protective works are those, which, although not directly remunerative to the extent which would justify their inclusion in the class of prodnctive works, are constructed with a view to the protection of the tracts liable to frequent famines, affording a relief in the periodical expenditure on famine. The cost of these works is charged against the current revennes, generally met from the annnal grant for famine relief and insurance. Minor works comprise those irrigation and navigation works, not classed as productive or protective, and agricultural works undertaken for the general improvement of the country. This outlay is met from current revenues. When any works of this class cost more than Rs. 50,000, separate capital and revenue accounts are kept, provided it is estimated that their revenue would pay the working expenses. There were 121 such works, with a total capital outlay of Rs. 665 lakhs, and a surplns of 40½ lakhs in 1916–17. We may sum up the general position of irrigation by saying that the total area irrigated from public works of all kinds exceed 27½ million acres, being over 13% of the total cropped area in British India; that it has cost the State, by way of capital outlay on these works, upto the end of 1924–25 Rs. 93·58 crores in round figures, yielding a net revenue of 6·53 crores from the major productive works; that the value of crops raised in a single year has been estimated at Rs. 140·30 crores or the whole capital outlay and 55% over again.*

* The following extract from the report of the Indian Industrial Commission (1918) is illuminating—"We cannot do more than indicate very roughly the extent to which the development of irrigation by mechanical methods may ultimately be carried, and the following observations are only intended to convey some notion of what is possible. There are at least 3 million wells in India from which water is lifted for irrigation, and the number of men and cattle employed on this work is very large. The Indian Irrigation Commission of 1901-3 reported that the area under wells was not less than 16 million acres, and they remarked 'It may not be too sanguine to look forward to a period when the area under well irrigation may throughout have been doubled'. Since this opinion was expressed, mechanical methods of lifting water have improved, from which water can now be profitably raised at last twice what it was 15 years ago. This enormously increases the volume of underground water which can be tapped, and consequently the area which ought to be brought under irrigation. Within the last few years fully 1,000 pumping stations have been established in the south of India, and the number is large enough to warrant the general conclusion that mechanical methods of lifting water for irrigation can be employed in India on a very extended scale. Even if in no more than 5% of the wells used for irrigation the use of small mechanically driven pumps were practicable, and the area under well irrigation developed to the extent the Irrigation Commission anticipated, this would mean an employment of about 300,000 pumping sets, at an initial capital outlay of something like Rs. 30 crores, with annual working expenses of probably not less than 6 crores, and with the result of very large gains to the cultivators." (Para 88).

TOTAL MAJOR AND MINOR WORKS*

Irrigation and Navigation

	Total capital outlay (direct and indirect.)	Gross receipts.	Working expenses.	Net revenue (excluding charges for interest) Amount.	Net revenue (excluding charges for interest) Percentage on total capital outlay.	Interest on mean capital outlay.	Percentage of working expenses on receipts.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1881-82...	...	2,21,91,885	3,07,25,340	*85,33,455* †	...	...	...
1891-92...	...	3,40,80,600	4,41,75,285	*1,00,95,315* †	...	...	...
1900-01...	42,36,85,381	4,17,52,399	1,39,82,264	2,77,70,135	6·55	1,59,32,507	33·48
1901-02...	43,36,17,544	4,17,13,849	1,40,52,528	2,76,61,321	6·38	1,63,04,866	33·69
1902-03...	44,47,24,541	4,50,31,888	1,45,85,408	3,04,46,480	6·85	1,66,85,780	32·17
1903-04...	45,62,24,483	4,69,59,301	1,53,44,361	3,16,14,940	6·66	1,71,05,266	35·31
1904-05...	46,61,94,235	4,87,14,153	1,63,80,995	3,23,33,158	6·94	1,75,06,668	33·63
1905-06...	48,14,13,743	4,83,00,697	1,72,05,038	3,10,95,659	6·46	1,79,51,330	35·62
1906-07...	49,99,44,965	5,64,25,895	1,78,82,285	3,85,43,610	7·71	1,60,99,317	31·69
1907-08...	51,81,45,457	5,34,85,836	1,85,33,659	3,49,52,177	6·74	1,65,59,965	34·54
1908-09...	54,25,73,574	5,53,87,242	1,88,64,265	3,65,22,977	6·73	1,71,82,694	34·06
1909-10...	56,66,79,302	5,67,45,171	1,97,79,326	3,69,65,845	6·52	1 78,09,594	34·86
1910-11...	59,18,48,006	5,76,90,763	2,03,88,535	3,73,02,228	6·3	1,87,17,018	35·34
1911-12...	62,26,44,732	6,17,33,379	2,08,52,245	4,08,81,134	6·56	1,97,79,736	33·77
1912-13...	65,16,33,799	6,81,48,937	2,17,39,480	4,64,09,507	7·12	2,07,97,079	31·89
1913-14...	68,24,49,109	7,26,56,987	2,23,58,023	5,02,98,964	7·37	2,09,82,446	30·77
1914-15...	71,02,23,681	7,25,70,732	2,36,40,695	4,89,30,037	6·89	2,26,17,979	32·58
1915-16...	72,78,79,016	7,38,50,820	2,51,15,764	4,87,35,056	6·69	3,32,49,305	34·00
1916-17...	74,25,48,506	7,93,71,193	2,43,35,474	5,50,35,719	7·44	2,26,12,369	24·49
1917-18...	75,48,47,524	7,78,93,630	2,53,46,168	5,25,47,462	6·96	2,42,36,041	32·54
1918-19...	76,41,19,064	8,27,50,949	2,58,40,858	5,69,10,091	7·45	2,46,02,434	31·23
1919-20...	77,17,10,905	8,99,39,709	2,86,37,260	6,13,02,449	7·94	2,34,88,627	31·84
1920-21...	78,61,21,601	9,08,05,263	3,32,26,907	5,75,78,356	7·32	2,33,16,179	36·59
1921-22...	81,21,29,312	9,66,19,232	3,83,16,643	5,83,02,589	7·18	2,71,90,861	39·66
1922-23...	84,57,23,103	10,05,81,180	3,84,72,007	6,21,09,173	7·34	2,84,74,523	38·24
1923-24...	89,33,66,370	10,65,10,765	3,77,48,040	6,87,62,725	7·69	3,08,51,437	35·44
1924-25...	93,58,45,079	10,84,91,247	4,02,93,202	6,81,98,045	7·29	3,34,58,636	37·14

In round figures the productive major works have cost 59·66 crores, the protective works 30·14 crores, and the minor works have cost 3·78 crores, in all over 93·58 crores including cost on larger works already incurred, though the works are not completed (1923-24). The total gross revenue is 10·84 crores, while the net revenue is nearly 6·81 crores, the percentage of net revenue to total outlay being over 7½%, and the net profit to the state being 3·34 crores. Reckoning from 1887, the total net revenue in the 40 years has more than paid off the total capital outlay on these works, and every year that goes on adds to the value and productivity of this great asset of the State in India.

* The earlier figures are so inextricably mixed up with extraordinary grants that we have thought it unnecessary to append them.

† These are deficits.

V.—Future of Irrigation Finance *

These handsome results do not, however, suggest that we have come to the end of our programme of irrigation works. To get some idea of the further development of irrigation works in the near future, let us note in passing that schemes completed, but which have not yet reached their maximum development, are expected to add about 100,000 acres to the record area irrigated in 1922-23 *i. e.* 28 million acres; and works now under construction will add, when completed, another 2½ million acres. Projects, moreover, are awaiting the sanction of the Secretary of State, which, if adopted, are estimated to add a still further 4¾ million acres; so that the maximum of area expected to be brought under irrigation in the near future will be 36 million acres; given double crops on some of these, the total irrigated area may well rise to 60 million acres or more. The capital cost of these works sanctioned or to be sanctioned and completing may add between 50 to 75 crores, or a debt charge at 5 p. c. of at the most 4 crores. If there is any loophole for unfavourable criticism in this chapter, it is in respect of the relatively high working charges; and a note of warning would not be wholly out of place as to the likelihood of such vaunted projects as the Sukkur barrage in Sind not proving all they are expected to. To the capital cost must also be added an amount—say 45 or 50 crores—for wells and their improvement. The total irrigation needs of India may be estimated to fall not much short of Rs. 100 crores, which would add about 20 million acres to the irrigated area, and over 100 crores to the value of the crops. This estimate, it may also be noted, is entirely independent of any other developments in canals, *e. g.* for navigation purposes. The whole of this sum cannot be spent out of revenues; though, if the programme were properly distributed over a period of 10 years, the total annual charge would perhaps not exceed Rs. 10 crores—a sum which may with little difficulty be found from the current revenues, if the suggestions made in the foregoing chapters of the present section were adopted. If, however, the annual charge on current revenues is limited to Rs. 5 crores, and the remaining 5 crores found out of monies borrowed by the agriculturist from a state guaranteed land bank, there ought to be no difficulty in financing these projects. And, if, in proportion as the revenue from the works grows, the loan operations are curtailed or allowed with more advantageous conditions, the net burden even by way of interest charge ought to prove insignificant.

We may close this discussion by a brief reference to the recommendations of the Indian Taxation Enquiry Committee (1924-25) in regard to the irrigation dues. They consider that "wherever possible the charge for water should be separated from the charge on land" (para 138). But it may be doubted if they have given adequate consideration to the administrative cost

* Cp. D. G. Harris: *Irrigation in India*, 1923, in the *India of To-day* Series, Vol. III.

and difficulty in making this suggestion. "The minimum charge," they further suggest, "except in the case of protective works, should be the cost of supplying the water, that is to say, the cost of maintenance of the irrigation works, plus interest on capital cost, and the normal charge should be a moderate share of the value of the water to the cultivator." (Para 138). Admitting the equity of the base-line or the lower basis for rate-making suggested by this Committee, it may yet be questioned whether their suggestion regarding the "normal charge" is equally just. It is suggestions like these, not at all unknown in the official arcana, which make one hesitate between the relative advantages of well irrigation and canal. If the charge for the water supplied from government canals is to be a share, however small, of the crops raised by means of that water, the cultivator would certainly be well advised to prefer his own well on his own bit of land to the large scale irrigation possible to Government enterprise. And if Government must leave it open to the cultivator to take Government water or not, they will never be able to launch out on large scale irrigation, with any assurance of meeting the working cost and interest charges thereon. We think, therefore, the minimum suggested by the Committee ought to be the normal, an increase over which should be permitted only in such cases, where the clearest evidence is afforded of very considerably enhanced ability to bear the larger burden. The Committee themselves seem to have perceived the weakness of their suggestion, since they have admitted the exception of those ryots who agree to pay a rate for a term of years whether or not they use the water. But we think it would be better still, if instead of adding to such exceptions, the normal charge were itself made more moderate and reasonable.

CHAPTER XI

Railway Revenue

I.—The Nature of the Railway Receipts

As in the case of the irrigation dues, so here, a difference of opinion regarding the very nature and object of the railway enterprise is possible, and has long been a subject of a certain amount of heated controversy. The *obiter dicta* of eminent economists quoted in the previous chapter may well be referred to again in this, in support of onr conviction that the railway receipts are largely in the natnre of tax-receipts. Until the railway finance was completely separated from the central finances of the country as a whole, the difference of opinion was plausible; since, if the railway receipts were treated at all as indistinguishable from tax receipts proper, the element of a charge for a specific service rendered, which undoubtedly is there in every railway rate and fare, will be lost sight of. Prof. Cannan would, of conrse, hold that if even a part of a given public revenue is truly speaking a tax receipt, then the whole of that revenue should be justly treated as taxation. For our part, we consider that the railway revenues are the result of an effective, absolute, complete monopoly of the state, which leaves no option to the consumer of that service for an alternative, or did not, at least until very recent times; that there being no alternative, the snggestion that the consumer may save himself this tax-burden if he does not use the service at all is besides the point; and that the railway rates and fares are capable of, and have in fact been varied in the past, not in accordance with the changing qualitative measure of the specific benefit received by the consumer on strict commercial principles, but rather in accordance with the changing needs and requirements of the pnblic exchequer; and that, under such circnmstances, there can be no question that the railway receipts are primarily in the nature of taxation. In criticising, moreover, the actual incidence of the rates and fares, the critic uses arguments and considerations, such as the use of railways in building up the industries of the country, which can only be met satisfactorily, if the receipts from this department were essentially in no way different from those other compulsory contribntions, exacted in virtue of the sovereign anthority of the state, which we call taxes proper. The railway authority itself, in framing its rates and fares schedule, frankly follows the principle of charging what the traffic can bear, and so applying the central principle of all sound systems of taxation, *viz.* the ability of the tax-payer to bear the tax-burden.

Under these circumstances, we see no reason why the railway receipts should be treated apart from the ordinary tax revenues of the Government,

Now that the Railway Budget has been separated completely from the ordinary budget of the Indian Government, the net surplus paid into the central treasury is frankly of the tax kind, though the Taxation Committee hold :—" It is an open question whether even the amount so paid is true taxation." But they are content to include this portion at least within their reference.

II.—History of the Indian Railway Finance

Railway enterprise in India may be said to date from 1845, when private corporations were authorised to start the lines from Calcutta to Raniganj, by the East India Railway Company ; Bombay to Kalyan by the Great Indian Peninsula Railway Company ; and Madras to Arkonam, by the Madras Railway Company. These companies, however, soon found that it was impossible to raise the necessary capital without some sort of a Government guarantee for some kind of a regular return. The Company's Government, on the other hand, appreciated fully the advantages of linking up the chief centres of India by rail, from a military standpoint ; and they were thus not unwilling to listen to projects of railway enterprise, if necessary at some sacrifice to the Government. In a long and exhaustive minute, of 1855, Lord Dalhousie, the then Governor-General, pointed out the immense political, strategical and commercial advantages expected from railway lines linking up the principal cities of India; and to that end drew up a comprehensive scheme of trunk lines to link up the presidency towns and the inland centres with one another and with the ports. The board of directors appreciated the value of the scheme mapped out by the great pro-consul, his arguments being driven home soon after by the mutiny, when the absence of rapid means of communications was severely felt.* It was assumed, not without some justice, that the ignorance of the nature of the venture would prevent the Indian capitalist from undertaking these projects, while it was clear that English capital would not be forthcoming in sufficient quantities in the absence of some guarantee of return.† The Government, therefore, offered a guarantee of a minimum return of 5% per annum on the capital invested, in addition to giving freely all land required for the construction of the permanent way, the stations,

* It is a curious point to note that while almost all the railways in England have been considered exclusively from the standpoint of commercial gain, without much regard to the military factor in alignment and construction, in India, the military factor has never been absent ; and in some cases, as those of the Frontier railways, it was the dictating factor. It is a proper question to ask in discussing Indian railway finance whether the accounts of the two ought not to have been kept apart, whether a different treatment was not necessary from the beginning. Now, however, following a resolution of the Indian Legislative Assembly in 1922, the accounts of the so-called strategic railways are shown separately.

† That the first companies got excessively advantageous terms can be shown from the free grant of all lands added to the guarantee of 5%. The following extract from the evidence of Thornton before the Parliamentary Committee of 1872 is interesting:—"I do believe unguaranteed capital would have gone into India for the construction of railways had it not been for the guarantee. Considering how this country is always growing in wealth, and that an immense amount of capital is seeking investment which it cannot find in England and goes to South America and other countries abroad, I cannot conceive that it would persistently have neglected India." (Dutt op. cit. p. 354.)

sheds, sidings, etc. The interest was to be paid from the date the capital was subscribed; and, in order to eliminate the uncertainty of exchange, it was agreed that the proceeds from the revenues were to be converted into sterling at *22d.* per rupee, and that interest on the guaranteed capital was also to be paid at the same fixed rate.* The Government retained the right of sharing equally with the companies the surplus profits whenever they exceeded the guaranteed minimum, so that if the total profits amounted to 7%, 5% would go to the companies as the guaranteed minimum, and the remaining 2% would be shared equally, Government getting one per cent. out of 7% of revenue, and the companies getting 6%. The companies were bound at the end of 25 years to sell their railways to the Government on fixed terms, while during the currency of the guarantee, Government were to exercise close control over the operations in India.

It is clear from this review that the terms were excessively unfavourable to the Government. Once the principle of guarantee had been introduced, no capital would be invested in the railways without such a guarantee. And the guarantee once given, there was no incentive to the companies to economise. Whether it was the inexperience of the engineers, or the indifference of the companies, or the incompetence of Government officers who were to control the operations of the companies, the fact remained that the guaranteed railways were for a long time a white elephant on the Indian exchequer.† The Government were by no means the last to realise

*Strachey op. cit. p. 121, summarises the total public works account thus:—

	£
Total guaranteed railway capital	97,728,000
Gross receipts therefrom	12,065,000
Net receipts therefrom	5,495,000
Interest charge	4,599,000
Net Government receipts after payment of all interest	337,000
II.	
Total State railway capital	26,689,000
Gross receipts therefrom	2,175,000
Net receipts therefrom	602,000
Net charge after paying interest	608,000
III.	
Total irrigation capital	17,086,000
Gross receipts	1,357,000
Net receipts therefrom	927,000
Net income after interest	76,000
Total capital outlay	142,223,000
Gross receipts	15,597,000
Net receipts	7,024,000
Interest charge	7,219,000
Net charge on exchequer	195,000

†The late Mr. R. C. Dutt has collected a large number of extracts from the evidence of the highest officers of the Government of India before the Parliamentary Committee of 1872–74 to show the wastefulness of the guarantee system. See *India in the Victorian Age*, p. 354 *et seq.* The following is, however, too emphatic to be omitted here. In a minute, dated August 16th, 1867, Sir J. Lawrence, the Viceroy wrote : "It is estimated that while the companies will have to supply 81 millions for the railways now under construction, the Government contribution will be 7½ millions for land, loss by exchange and supervision ; 14½ millions for interest paid in excess of net revenues ; and 4½ millions in interest paid on those payments of guaranteed interest." (Dutt op. cit, p. 358–59).

the costliness of the Indian railway system, and Lord Lawrence decided in 1869 to construct new railways directly by the agency of the State from funds obtained by borrowing or from current revenues. In order to construct the State railways on a cheaper basis, a narrower gauge of 3′–3″ was adopted as against the 5′–6″ gauge of the guaranteed companies. The additional charge involved by way of interest on borrowed capital was considered by the Government of India reasonable price for the tax-payer to meet in view of the advantages of the railway system. The following table taken from Strachey's "*Finance and Public Works of India*" indicates the progress made in this direction upto 1880.

(*In thousands sterling*)

	Guaranteed Railways.				State Railways.				
Year.	Cap.	Int.	Net Revenue.	Net Charges.	Capital.	Gross Receipts.	W. E.	Int.	Total* N. C. on Ry. a/c.
1868–9 ...	79,168	3,878	1,966	1,912	553	13	30	10	1,929
1869–0 ...	83,911	4,126	2,618	1,589	744	8	9	30	1,620
1870–1 ...	87,689	4,342	2,557	1,888	1,193	8	9	40	1,909
1871–2 ...	90,183	4,542	2,877	1,721	1,838	4	8	61	1,796
1872–3 ...	90,631	4,608	2,554	2,215	3,252	17	11	115	2,324
1873–4 ...	91,354	4,618	3,241	1,529	5,606	40	46	168	1,703
1874–5 ...	92,442	4,644	3,455	1,244	8,620	131	86	284	1,483
1875–6 ...	93,393	4,638	3,729	992	11,785	290	193	410	1,305
1876–7 ...	94,108	4,659	4,433	278	14,651	272	283	530	710
1877–8 ...	95,431	4,655	5,397	675	18,636	549	421	664	139
1878–9 ...	96,445	4,705	4,023	740	21,964	966	734	918	1,426
1879–0 ...	96,794	4,708	4,924	110	24,644	1,549	1,215	1,058	614
1880–1 ...	97,728	4,599	4,936	337	26,689	2,175	1,573	1,210	271
								Total	17,238

On the combined railway account this gives a total capital outlay of £124,417,000, and a total loss of nearly £17 millions sterling in 12 years.†

* In the above statement Cap.=capital. Int.=interest. N. R.=net receipts. N. C.=net charges. G. R.=gross receipts. W. E.=working expenses.

† The above figures work out an average cost per mile of railway in India at £12,577½—a cost far in excess of the English rail-road construction when we consider : that (1) in India the railway companies have had a free grant of all land required, and (2) that they have had no preliminary expenses such as the English railway companies have had to undergo in obtaining Parliamentary sanction. If all the land taken by railways upto 1881 is included, the capital cost would increase by at least 25 millions or which would raise the cost to £15,000 per mile.

We may here close the first stage of the history of Indian Railway Finance (1845–1880). During 35 years of intermittent activity, about 9,891 miles of railways had been constructed at a total loss of nearly 25 million sterling without including interest on the accumulating loss. The guarantee system was proved to be wasteful in the extreme, and the alternative of direct State agency was substituted. The loss involved in the new policy was demonstrably not greater than the loss involved in the guarantee system. But even assuming the loss as a fast diminishing quantity, it could well be treated as a reasonable charge on the tax-payer for the facilities obtained.*

III.—Second Stage of Railway Finance 1880–1900

Though the moral and material progress report of 1873 had declared:—

> "Railways are now almost completed, so that with the cessation of very heavy outlay on construction, the financial position may be expected to improve"

yet the possibilities of new regions being opened up went on making continually increasing demands on the revenues and credit of India for the purpose of railway extension. The new policy of direct construction through the agency of the State received, soon after its inception, a serious set-back. The Government of India were obliged to borrow in the London market whatever their needs; and the heavy famine and war charges in the decade 1870–1880 made it impossible to depend only on the funds that Government could conveniently spare for railway construction in view of the great advantages of a large railway system.† For military reasons, many railways, originally started on the metre gauge by the State, had to be converted into broad gauge at a tremendous loss. On the other hand, a reversion to the policy of inducing private capital to take up railway enterprise in India was becoming more than ever difficult, as the Government were anxious to curtail their obligations in sterling as much as possible owing to a continued fall in the value of the rupee. A committee of the House of Commons had found in 1879 that the prosecution of productive public works would necessarily proceed very slowly if reliance were placed exclusively on the funds borrowed or spared by the state; and they had, therefore, suggested that the construc-

* For a long time the loss on exchange was the most important factor of the deficit in the railway budgets. The Welby Commission found that the railways would have been profitable much earlier, and certainly in 1894–95, if exchange were anywhere near the agreed figure, or even near *1s. 4d.* The charge on exchange alone ate up all the profits from 1885–99. See para. 198 *et seq.* of the majority report.

† After declaring that the expenditure upon railways and irrigation works: "Though not remunerative in the aggregate, has upon the whole been beneficial to India; and that although considerable sums have been wasted and certain profitless schemes undertaken, the policy of continuing to borrow for the productive public works may, within the limits and restrictions hereinafter laid down, be continued" they then proceeded to indicate the limits which they fixed at £2½ million a year. They advocated the substitution of rupee borrowing for sterling loans. This amount of 2½ millions a year was, of course, to be in addition to any amount required for the purchase of any railway company, and any money found or loaned for the purpose by the Indian States. Any unexpended portion of any year's grant may also be regranted in the following year in order to prevent waste involved in hasty construction.

tion of public works, chiefly railways, from borrowed capital by the state should be limited to 2·5 million sterling a year, leaving the rest if required to be provided by private companies.* The Secretary of State, in forwarding the recommendations of the committee of the House of Commons, laid down:—

> "The question of constructing new railways is to be considered on commercial principles. No new line is to be undertaken, unless there is good prospect of its proving remunerative, that is to say, unless it can be fairly calculated to pay within a minimum limit of five years from the date of the line being open for traffic, 4 per cent. on the capital invested, including therein all arrears of simple interest incurred upto that date, and also the capitalised value of the land revenue and of leave allowances and pensions."

The whole question of railway policy under the two alternatives of state construction *vs.* private enterprise was discussed at length in the financial statement of Sir E. Baring 1881–82. As under the orders of the Secretary of State, issued in pursuance of the recommendations of the Parliamentary Committee of 1879, construction by the state from borrowed funds was limited to a maximum of £2·5 millions, and as the possibilities of railway extension were evidently great, as shown by the repeated requests of the Indian and English Chambers of Commerce,† the invitation to private enterprise was unavoidable. Lord Cromer recognised the limits to the powers of the State in India, in view of the fact that the available capital for investment in railways was limited, and that shrinkage in the value of the rupee had made the Government of India naturally reluctant to add to their sterling obligations beyond what they could not help. Besides, even granting

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* Up to 1880 certainly, and possibly upto 1900, no one in India seems to have appreciated the importance of railways as means of industrial development by preferential rates as they did in Germany. They thought of railways only as means (1) to transport food-stuffs, and thus relieve distress in time of famine; (2) to aid in the movement of goods, and thus add to the volume of the foreign trade of India; (3) to facilitate the transport of troops and munitions. Thus Strachey said in the Financial Statement of 1880–81: "It is an unquestionable fact that the railways and railways alone were the salvation of the situation in Northern Bihar during the famine of 1874, and that they have again been the salvation of the situation in Madras during the famine of the present year." Again, the Famine Commission of 1880 said: "Until the whole country is more completely supplied with railways or canals by which food can be transported rapidly, cheaply, and in large quantities, to every part where severe want may exist, the possibility of some unusual demand for Government interference cannot be shut out."

† In the financial statement of 1884–85 Sir A. Colvin observes:—"But if the new undertakings promise so well, where is the necessity for a Government guarantee? One can understand Government coming forward in the infancy of a railway system, when everything as regards the future is in a state of complete uncertainty, and offering special inducements to the investors. In the case of India, however, the experimental stage is past. Experience has demonstrated the paying (sic.) character of the Indian railways; and at the present time specially, when the great difficulty is not to find capital for sound and profitable undertakings, but to find proper outlets for capital, private enterprise ought surely to be sufficient to supply India with the railways she needs. The system of granting guarantees has created a wrong impression that without a guarantee the venture was too risky. Now, however, that the Chambers of Commerce both here and in India are urging the fact that the railways are a paying concern as a reason for the state committing itself further to their construction, the idea that they are investments involving so much more than the ordinary risks that a Government guarantee is essential should be exploded." It would be impossible to accept all these remarks in the light of the known facts of the case without question, but for the underlying vein of exquisite satire on those, who, without themselves risking anything, could yet urge the Government to further exertion in railway construction.

that the State could and should find funds for construction, there was the undoubted difficulty that there was no means of ascertaining, independently, the commercial possibilities of a programme put forward by the Government. The Public Works Department preparing the project could naturally be not expected to emphasize the weak points; while the absence of any sufficient engineering talent outside Government service would make any independent criticism out of the question. The central Finance Department would naturally be powerless to prevent all possible waste, or to offer independent criticism. On the other hand, he fully appreciated the difficulties of private enterprise. He was too good a follower of the *laissez-faire* school not to realise the disadvantages of a private railway company, which would, in the nature of things, necessarily have a monopoly. The palliatives of private monopolies supervised by the State for the safety of passengers, and its power to fix the maximum rates, the right to purchase the whole undertaking after the agreed term, combined with the general power of supervision over construction and maintenance, would, he could not but admit, go a long way in minimising the abuse of monopoly. It was characteristic of his time and training to feel, that as the railways were likely to be profitable to private investors, the latter would employ their profits more productively than the State. Apart from the unfortunate experience of frontier railway construction during the second Afghan war, there was no reason to assume that the State would employ its savings or profits less productively than the private entrepreneur. The need to economise or to employ its surplus productively is all the greater in the case of the State, which is constantly on the look-out to grant relief in taxation and to take up other more advantageous projects. Baring did not, moreover, perceive clearly the other disadvantages of private enterprise : at the time he was discussing the question, practically all the most profitable regions of India had already been tapped by the guaranteed companies. The new promoter must necessarily feel that for him was left at best only second rate traffic to develop. Consequently, even if private enterprise in India had been willing to take up railway construction, the conditions of the day must unavoidably have acted as a deterrent. Besides, a number of private railway companies competing among themselves for traffic would inevitably lead to cut-throat competition, intense and destructive rate war, which would be to the advantage of no party whatsoever. And, in this summary of the difficulties in the way of private enterprise, he takes no account of the graver problems of the conflict between capital and labour; the question of preferential tariffs for selected trades or industries; the chances of speculation, and even the danger of political corruption as apparent from the example of the United States. Then, as now, the only proper conclusion seems to be State enterprise, or subsidised and controlled private company, which could, after a given period, be purchased by the State.*

* The first option to purchase a railway company was exercised by the Government of India in the case of the East Indian Railway Company in 1880. The purchase was [*Continued on p. 338.*

In view of these difficulties, once again recourse had to be had to another Parliamentary Committee (1883) which reported in 1884. This Committee suggested that the old distinction between productive and protective railways should be abolished, the railways needed for the development of the country or for the protection against famine being constructed out of the famine insurance grant. In any case, the bulk of the railways should be self-supporting. Moreover, in place of the existing policy of providing what could be provided from the public revenues, the Committee suggested that a careful forecast of future requirements must be made beforehand, and then expenditure on railways alone should be so arranged as to be within the means of the Government consistently to be maintained. The Government of India had suggested a programme for the next six years, which the Committee found moderate and promising a fair return; but they negatived the Government suggestion that £200,000 out of the famine insurance grant be hypothecated towards the interest payable on £11·25 million railway capital. Such a diversion of the famine grant would, they thought, be entirely outside the scope of that grant. They permitted, however, the limit fixed in 1879 to public borrowing for this purpose to be raised from 2½ crores to 3·5 crores of rupees, leaving the responsibility of the amount actually to be borrowed each year on the Secretary of State. In any case they declared their emphatic opinion that the future extension of railways in India should not be at the cost of additional taxation.*

Following the Committee's recommendations the policy of making a three years' programme in advance was introduced, the programme of 1885 being a little hampered by the frontier scare. The second triennial programme in 1889 contemplated an annual outlay of 2·5 crores, which was modified in 1890 so as to include half of the unspent famine grant, while in

Concluded from p. 337.]

carried out by creating an annuity as provided by the contract for 74 years in favour of the company, equal in capitalised value to the amount of their share capital taken at the average price during the three years preceding the purchase. The price was settled at £125 for £100 stock, and the interest was taken at £4-6-0 per cent. for calculating the annuity. The capital being £26,200,000, an annuity of £ 1,473,050 was created giving the capitalised value at £32,750,000. The debentures of the Company amounting to £4,450,000 were also taken over by the Government. But the working of the Railway was again leased to the company, by one fifth of the purchase money being left with the Secretary of State, and a proportionate amount being deducted from the annuity. On this sum 4 per cent interest was guaranteed out of the revenues of the railway. The net receipts from the line, after paying all expenses including a contribution to the provident fund, were next subjected to these deductions :—(1) the amount paid by the S. S., on account of the annuity ; (2) the guaranteed interest to the working company; (3) interest on debentures; and (4) interest on all monies advanced by the Secretary of State for working the line. He was also to supply all needful capital for the extension of the line, being paid interest as stated above. The exchange in either case was to be at 22*d*. per rupee. By this transaction Government secured a net gain of 25 lakhs in the following year (Cp. Financial Statement of 1879-80). The other companies similarly purchased were:

1.	Eastern Bengal Railway ...	1884	5.	Great Indian Peninsula Railway	1900
2.	Sind, Punjab and Delhi ...	1885-6	6.	Bombay, Baroda and Central India Railway	1905
3.	Oudh and Rohilkhand Railway	1888			
4.	South India Railway	1890	7.	Madras Railway	1907

Beyond the evils of obvious inflation of stock and surrendering a part of the future profits under the working lease, this agreement was not objectionable.

* See the financial statement of 1885-6 for a summary of the Committee's recommendations.

1892 another additional ½ crore was allowed. In 1895–6 the Committee's recommendations seem to have been utterly abandoned, as a three years' programme costing in all 29·67 crores was framed and sanctioned. This programme did not include the borrowing by companies which had received no guarantee. Guaranteed companies were, however, precluded from borrowing. This ambitious programme had to be considerably modified owing to famine and frontier troubles, as also the next programme of 1899–1901 for 22·33 crores.

During the period (1880–1900) two new experiments in railway finance were commenced which deserve notice. Four unaided private companies were promoted: the Nilgiri Railway, the Delhi Umballa-Kalka Railway, the Bengal-Central and the Bengal-North-Western, all of which, however, came to grief. The first became bankrupt; the second and the third had to receive guarantee, and the fourth could be kept alive only by leasing the Tirhut Railway to it. The second experiment was to try and induce the Native States to take up railway construction. The Nizam's Government guaranteed the interest on 330 miles of railway within the State of Hyderabad, which relieved the Government of India from considerable strain. By the end of the century, 3,000 miles of railway were constructed in the Native States under any one of the various arrangements sketched above.*

In 1893 was introduced the new expedient of the Rebate system to attract private capital. Instead of a minimum guarantee of interest payable in gold, companies were offered a rebate on the gross earnings of the traffic interchanged with the main line, so that the dividend might rise to 4 per cent. on the capital. As the new lines in most cases were branch lines, the system of rebate naturally suggested itself; but the rebate was limited to 20 per cent. of the gross earnings. Under this system three important lines were promoted: the Ahmedabad Prantij, the Southern Punjab, and the South Bihar lines.† The competition of the four per cent. trustee securities made the rebate terms unattractive, and they were further modified in 1896. An absolute guarantee of three per cent. was given, and in addition a share of surplus profits or rebate upto the full extent of the main line's earnings in supplement of their own net earnings, the total being limited to 3½ per cent. on the capital outlay.

IV.—Third Period of Railway History 1900-1920

The practice of making triennial forecasts had now become established; and it was found that the steady tendency towards increasing the programme led to a much greater strain than the finances could bear. A com-

* Robertson's report on the Administration of Indian Railways, 1903. At the present time the Native States Railway mileage totals about 9,000 miles.

† The Barsi Light Railway was started about this time on a 2'-6" gauge to show the possibilities of that gauge in the poorer countries.

For a summary and criticism of the terms offered under the arrangements of 1895, see Robertson's report, para 132 et seq. He seems to have been in favour of a reversion to the guarantee system.

mittee appointed in 1907 reported that no definite limit could be assigned to the amount that could be remuneratively devoted to the development and extension of the Indian railway system; and that, apart from the then existing lines, improvement of which was continually demanded, there was wide scope for the construction of new lines which would not only be remunerative in themselves, but would add materially to the prosperity of the population, greatly enhance the revenue, and largely develop the resources of the country.* With this view of the possibilities of railway development in India, it was inevitable that every effort be made to push on the enterprise. There was now no danger from a steadily falling rupee, as the arrangements of 1898-99 had helped to fix the rupee at Rs. 15=£1. The revenues had for a series of years been showing a surplus, and the spokesmen of India were almost silenced by substantial remissions of the salt duty, and of income tax. Above all, the railways had definitely turned the corner. For the first time in 1900 they showed a clear surplus after meeting *all* charges, including interest.† Owing to the extension of irrigation works in the Punjab and Sind, the great North Western Frontier Railway had ceased to be the Cindrella of the Indian railway system, and had become one of the most important grain lines of the world, choked with traffic at certain seasons of the year. The same tendency of rapidly increasing traffic, both passengers and goods, was observed everywhere, and the revisions of the contracts added substantially to the gains of the Indian railways. But the same factors which led to an increase in the receipts, also demanded considerable increase in capital expenditure. Costly works were necessary to double the track, improve equipment, provide better yards and terminal facilities, and increase the rolling stock. New demands for additional capital outlay were coming as much for improvements in the existing lines as on the new branch lines or feeders. Government modified their concessions to branch construction in June 1910, offering an increase in the rate of guarantee from 3 to 3½ per cent., of rebate from 3½ to 5 per cent., and an equal division of profits when they exceeded 5 per cent. Lines of purely local importance, which, however, would serve to develop the districts where they were constructed, were encouraged to be constructed by the district boards, wherever their revenues were in a sufficiently flourishing condition to allow such construction. Madras is yet the most conspicuous province for the extension of this enterprise.

* See cmd. 4111 of 1908.

† The profits have since been continuously increasing except in 1907-08.

V.—The Present Financial Position of Railways in India

The following table shows the financial position of the Indian railways :—

	Number of miles open for traffic.	CAPITAL OUTLAY.		Gross earnings.	Working expenses.	Percentage of working expenses to gross earnings.	Net earnings.	PERCENTAGE OF NET EARNINGS ON CAPITAL OUTLAY ON LINES OPEN AND PARTLY OPEN.	† Interest on railway account.
		Expenditure of the year on lines open and partly open.	Expenditure to end of the year on lines open and partly open.						
		R (1,000)	R (1,000)	R(1,000)	R(1,000)		R(1,000		R(1,000)
1853	20	...	37,96	90	41	45.56	49	1·29	...
1858	427	4,00,00	16,00,00	33,82	15,63	46.22	18,19	1·14	...
1863	2,507	5,00,00	53,00,00	2,20,47	1,33,04	60.34	87,43	1.65	...
1868	4,008	4,00,00	84,00,00	5,67,09	3,07,46	54.22	2,59,63	3.09	...
1873	5,697	1,71,70	91,72,60	7,22,90	3,77,85	52.28	3,45,05	3.76	...
1878	8,201	9,25,31	1,18,29,55	11,25,30	5,62,38	49.97	5,62,92	4.76	...
1883	10,450*	5,06,14	1,48,30,56	16,38,94	7,97,05	48.62	8,41,89	5.68	...
1888	14,517*	10,16,40	1,93,04,33	19,76,45	9,87,44	49.96	9,89,01	5.12	...
1893	18,465*	5,91,14	2,32,66,86	24,05,62	11,33,09	47.12	12,72,53	5.46	...
1896	20,176*	24,50,33	2,68,26,74	25,31,73	12,11,62	47.86	13,20,11	4.92	...
1897	21,006*	13,22,20	2,81,48,94	25,56,28	12,45,71	48.72	13,10,57	4.66	...
1898	21,993*	10,67,96	2,92,16,90	27,41,33	12,99,92	47.37	14,41,41	4.94	...
1899	23,476*	16,40,91	3,08,57,81	29,36,87	13,93,80	47.43	15,43,07	5.01	...
1900	24,713*	21,03,22	3,29,61,03	31,54,37	15,09,61	47.85	16,44,76	4.99	7,84,70
1901	25,331*	9,55,86	3.39,16,89	33,60,38	15,72,45	46.79	17,87,93	5.27	8,24,85
1902	25,898*	10,60,50	3,49,77,39	33,92,69	16,70,49	49.24	17,22,20	4.92	8,48,73
			(b)						
1903	26,851*	11,46,24(a)	3,41,11,44	36,00,82	17,11,09	47.52	18,89,73	5.54	8,77,75
1904	27,557*	6,79,77	3,47,91,21†	39,66,91	18,78,85	47.36	20,88,06	6.00	9,11,89
1905	28,287*	10,60,59	3,58,51,80†	41,69,92	19,95,33	47.85	21,74,59	6.07	8,02,98
1906	29,089*	12,75,25	3,71,27,05†	44,13,58	22,02,21	49.89	22,11,37	5.96	8,33,07
1907	29,957	20,59,88	3,91,86,93†	47,30,51	24,32,32	51.42	22,98,18	5.86	8,65,53
1908	30,576	20,04,78	4,11,91,71†	44,82,69	27,00,25	60.24	17,82,44	4.33	9,02,21
1909	31,490	17,91,49	4,29,83,20†	47,06,38	26,38,48	56.06	20,67,90	4.81	9,19,07
1910	32,099	9,21,53	4,39,04,73†	51,14,22	27,15,72	53.10	23,98,50	5.46	9,40,15
1911	32,839	11,02,07	4,50,06,80†	55,27,92	28,83,92	52.17	26,44,00	5.87	9,99,63
1912	33,484	15,08,20	4,65,15,00†	61,65,04	30,15,92	48.92	31,49,12	6.77	10,60,88
1913-14	34,656	29,93,64(f)	4,95,08,64†	63,58,51	32,92,94	51.79	30,65,57	6.19	10,95,46
1914-15	35,285	24,13,49	5,19,22,13†	60,42,74	32,75,04	54.19	27,67,70	5.33	11,86,83
1915-16	35,833	10,76,16	5,29,98,29†	64,66,04	32,91,95	50.91	31,74,09	5.99	12,03,29
1916-17	36,286	5,29,68	5,35,27,97†	70,68,42	33,40,32	47.26	37,28,10	6.96	11,63,89
1917-18	36,334	6,51,93	5,41,79,90†	77,36,39	35,36,87	45.72	41,99,52	7.75	12,23,32
1918-19	36,616	7,94,55	5,49,74,45†	86,28,68	41,80,17	48.45	44,48,51	8.09	12,45,18
1919-20	36,735	16,63,32	5,66,37,77†	89,15,32	50,65,65	56.81	38,49,67	6.80	13,14,51
1920-21	37,029	...	6,26,80,53	91,98,76	60,29,04	65	31,69,72	5.00	15,07,77
1921-22	37,266	...	5,47,97,17	92,88,67	70,29,95	75	22,08,72	3.40	15,66,27
1922-23	37,618	...	6,97,47,07	1,05,65,19	72,99,49	69½	32,65,70	4.66	16,39,65
1923-24	38,039	...	7,17,93,02	1,07,79,66	68,44,77	63½	39,34,89	5.50	17,57,74
1924-25	38,270	...	7,33,37,38	1,14,75,20	69,36,68	56½	45,38,52	6.10	21,23,84

* Excludes lines for which information regarding "capital outlay," "gross earnings," etc , is not available.

† Capital outlay on lines open, *i.e.*, on mileage earning revenue.

(*a*) Estimated.

(*b*) The decrease is due to the revision of the capital outlay in consequence of the substitution of the actual expenditure of the State from Guaranteed Rail-

[*Continued on p. 342*

VI.—The Railway Budget of 1926-27

To bring these figures right upto the latest available date, let us note here the budget position of the Indian Railways, as unfolded to the Indian Legislative Assembly in February, 1926.

The following table summarises the budget position of the Indian railway system :—

Receipts

	Revised Estimates (1925-26)	Budget Estimates (1926-27)
1 Commercial Lines.	(In thousands of rupees)	
Gross Traffic Receipts	98,86,25	101,35,57
Interest on Balance of Depreciation and Reserve Funds ...	54,06	81,54
Government share of Profits &c. from subsidised companies ...	34,69	34,34
Miscellaneous Receipts	6,41	6,44
Total Receipts Commercial Lines ...	99,81,48	102,57,89
Strategic Lines ...	.1,63,75	1,67,43
Grand Total of Receipts	101,45,23	104,25,32

Expenditure

	Revised Etimates (1925-26)	Budget Estimates (1926-27)
1 Commercial Lines.	(In thousands of rupees)	
Working Expenses ...	63,87,41	65,18,95
Surplus profits paid to Indian States & subsidised Companies...	1,75,90	1,51,00
Interest Charges ...	23,37,74	24,67,74
Miscellaneous Charges	35,50	75,69
Total Charges Commercial Lines ...	89,36,55	92,13,28
Gain from Commercial Lines	10,44,86	.10,44,61
Strategic Lines :—		
Working Expenses ...	2,04,94	2,11,05
Interest Charge ...	1,26,04	1,29,84
Miscellaneous ...	44	22
Net loss on working strategic lines ...	1,67,67	1,73,68

Net total gain from the entire railway system

Revised Estimate (1925-26)	Budget Estimate (1926-27)
8,77,19	8,70,93

VII.—Critique of the Railway Finance in India

Discussion and criticism of the Indian railway finance would be very much simplified if we take it under its two main divisions of the ordinary revenue expenditure or the working expenses, and the interest charge on the capital invested; and capital expenditure proper met from funds annually borrowed and invested in extension, improvement, or additional construction.

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way Companies as shown in rupees in the accounts of these railways at £1=Rs. 10, which was erroneously taken in stating the capital expenditure in previous Railway Administration.

NOTE.—From 1913-14, the financial year, 1st April to 31st March, has been adopted for reasons explained in the note.

‡ These interest figures are taken from the statistics of British India, Vol. II, Financial Document No. 1624 of 1922, p, 44, where a note reads :—

"The figures are taken from the annual Finance and Revenue accounts of the Government of India, but the method of the distribution of the total debt and of the interest thereon between 'Ordinary Debt' and 'Debt incurred for Railways' &c. has not been uniform and has been materially altered from the year 1906-7."

The later figures are from the decennial statistical abstracts.

Taking the revenue expenditure first, we find the Inchcape Committee on retrenchment, after reviewing critically the budget estimates for the railways in 1922–23, and comparing the same with the corresponding figures in pre-war days, coming to the conclusion that:—

> "We are of opinion that the country cannot afford to subsidise the railways and that steps should be taken to curtail working expenses in order to ensure that not only will the railways as a whole be on a self-supporting basis, but that an adequate return should be obtained for the large capital expenditure which has been incurred by the State. We consider that, with economic working, it should be possible for the railways in India to earn sufficient net receipts to yield an average return of at least 5½ per cent. on the total capital at charge. The average return to the State during the three years prior to the war was 5 per cent., and in view of the fact that large amounts of additional capital are being raised at 6 per cent. or over, we think a return of 5½ per cent. cannot be regarded as excessive".*

The Committee were, indeed, convinced that if the Meston Settlement *re*: the division of financial resources and obligations between the provincial and central governments in India had been defeated, it was because the railways were not keeping upto the mark assumed by the Meston Committee. They then go on to review in detail the working expenses of the collective railway enterprise in India, as well as of the individual railways, and find in every case an unconscionable increase of expenditure, without a corresponding rise in the service received in exchange for that expenditure. The Retrenchment Committee were told by responsible officers of the railways concerned that a good deal of the increased expenditure was due to renewals and replacements necessitated by the unavoidable neglect of railway maintenance in war time, and partly also on account of the increase in the traffic on the lines due to the war, and its aftermath. The uncertainty or obsoletion of the regulations governing the distinction between expenditure on such objects, which should be properly regarded as revenue expenditure to be defrayed out of the current income, and such as should be considered as capital expenditure to be met from borrowed funds or other capital resources. But even apart from this factor, the working expenses showed a steady and unpardonable rise due partly no doubt to the increase in the cost of the material; *e. g.*, coal, whose cost per ton had increased in the period reviewed or compared by the Inchcape Committee by 54 per cent., while the average consumption per ton-mile had increased by 21%. Again, while the average number of miles run by each locomotive had diminished considerably in the same period, the cost of repairs per locomotive had increased from 56% to 246% in the case of individual railway systems. The cost of repairs and renewals in the carriages and waggons department had similarly increased, from 114% in the East Indian Railway, to 388% in the Bombay, Baroda and Central India Railway system. Again, while

* *Indian Retrenchment Committee Report*, Part II, para 5.

tribute of loyalty to a lost cause which they had championed in the teeth of unanimous popular sentiment in India.*

Besides this question of the main organisation for the general direction and management of the Railway enterprise of the State in India, there is the cognate and connected question of the organisation for actual, specific, detail control, especially in regard to the financial aspect of the Railway enterprise, as also from the standpoint of estimating the real service rendered by the railways. The Acworth Committee of 1921 recommended that :—

(1) A new department of communications responsible for railways, ports and inland navigation, road transport and posts and telegraphs, under a Member of Council in charge of communications, should be created;

(2) that under the Member of Council for communications there should be a technical staff, consisting on the railway side, of a Chief Commissioner and four Commissioners, and that of the four one should be in charge of finance and the organisation and staff of the office, and the other three Commissioners should be in charge of three respective divisions, western, eastern, and southern;

(3) that the technical staff attached to the Commission should be strengthened, especially on the traffic side.†

The Government of India have not quite entirely accepted these recommendations; but they have accepted the principle of reorganising the old Railway Board, and in pursuance thereof appointed a Chief Commissioner of railways in November 1922. This officer made it one of his first duties, on appointment, to demand the sanction for appointing a Financial Commissioner, which was given in the April following. The Chief Commissioner is now responsible directly to the Government of India on all technical questions and matters of policy affecting the railways; he is not liable to be overruled, as his predecessor, the President of the old Railway Board, was. His proposals for a complete reorganisation of the Railway Board, bar the style and designation, were accepted in 1924, and the general control of

* When the report of the Committee appointed to consider the general question of the separation of Railway Finance from the ordinary Budget of the State in India came up before the Legislature in the September session of 1924, the question was raised: "whether as a condition of the acceptance of the proposals by the Assembly, Government should not give assurances with regard to Indianisation, representation of Indians on the Railway Board and the purchase of stores for railways, and should not also give an undertaking that no railway should be handed over to a private company without prior approval of the Legislative Assembly...Government undertook that the arrangements for separation should hold good only so long as the East India Railway, the Great Indian Peninsula Railway and the existing State-managed railways remain under State management; that no negotiations for the transfer of any of these railways to company management should be concluded until facilities had been given for the discussion of the whole matter in the Assembly; and that, further, if any of the above railways were transferred to company management against the advice of the Assembly, the Assembly should be at liberty to terminate the arrangements for separation." (Cp. *Annual Administration Report for the Indian Railways* for 1924-25, Ch. I, para 5.)

† See the Railway Administration Report for 1924-25, appendix p. 9.

railway policy and railway finance has, therefore, come to be vested in this new creation. It is this department which prepares the Railway Budget; and as since the separation of the railway finance, there is a Standing Committee on Railway Finance in the Legislature, the control over the detailed financial administration of the railways in India is far more close than was possible under the old regime. The new department has, of course, only very recently begun to function. Necessarily it has not yet explored or exhausted all possible avenues of true economy in the railway finance, which the critics of the administration have again and again insisted on. But there is reason to hope it will prove more successful than the previous organisation in the object of securing all possible economies in railway administration, both in the wider as well as in the narrower acceptance of that term.

. . .

Reverting, once again, to the scrutiny of the working expenses on the railways, the pretty general demand for an intensive policy of rapid Indianisation of the railway staff is dictated, as much by the preception of the birth-right of the peoples of the country to find employment in their own enterprise, as in the realisation of cheapness consistent with efficiency possible by the employment of Indian staff in preference to non-Indian. Under the pretext of efficiency in the service, the entire body of the superior railway staff used formerly to be staffed exclusively by Europeans and Anglo-Indians. In the winter of 1922, the Upper Chamber of the Indian Legislature adopted a resolution recommending more intensive Indianisation of the staff, not only on the state-managed lines, but also on the lines managed by companies. Government accepted this resolution, though they pointed out that a more intensive demand for Indianisation on lines not directly under state management might well be neglected, if not totally ignored, by the companies concerned, in case the policy did not seem to the directorate of those companies to be in consonance with the best interests of their shareholders. This last has, quite unexpectedly, proved one of the deadliest arguments against the management of the Indian railway systems by private companies, which would not, conceivably, attend to such larger issues of national policy. Progress has, no doubt, been made since that day, but even to-day the position is by no means satisfactory; for on the 1st of April, 1925, out of a total number of 1931 superior or gazetted officers employed on the first class railways in India, only 328 were Indians, while 1516 were pure Europeans, and 87 Anglo-Indians. The first class railways had a total salary and wages bill of Rs. 32,64,70,454 in 1924-25; but there is no means of ascertaining readily from the published annual administration report as to how much of this was due to the superior officers, and what percentage of it went to the Indians in the superior grades. The expected economy from Indianisation cannot occur while the preponderant element, especially in the highest grades, consists of non-Indians; nor, it may be added, will the economy be complete and satisfactory, so long as the Indian substitutes for the present preponderant non-Indian agency continue to be

under the influence of those disproportionately high terms which have been given to attract snitable non-Indian labour.

Yet another item of larger policy, connected with the finances of the Railways in India, consists of the purchase of stores for the railways. The Inchcape Committee rightly pointed to the wastage and uneconomy resulting from huge snms locked up in stores; and one of the decisive reasons, which eventually persuaded the Indian element in the legislature of the wisdom of a complete separation of the railway from the general finances of the country, was the possibility of making the railway authorities not so prodigal in indenting for stores, when they had no fear of their programme of extension or improvement being held up by the dead-hand of official accounting routine guillotining all unspent grants at the end of each financial year. Bnt the influence of the stores purchases for the railways was not confined merely to the possibility of retrenchment and saving in interest and other charges herein considered, but goes much deeper into the much larger qnestion of the general industrial development of this country. Indian opinion has at last succeeded in persuading the Government of India to ntilise their stores purchases for the encouragement of the necessary indnstries in the country itself by a system of suitable preference in purchasing. It is, indeed, even now not quite true to say that all the stores reqnirements of the Indian Government are purchased in India of Indian production; and the reflection cannot be avoided, however regrettable it may seem, that a Government, which had in its hands such a potent weapon of industrial development in this country for well-nigh three quarters of a century, cannot have used it to the best advantage, if, even to-day, not all their requirements for the railways could be purchased in the country itself, and of the country's own production. As it is, we must, however, record a slow but certain progress in this direction also; and if only the officers concerned could be imbued with that zeal, which not frequently leads them to prefer British to non-British tenders, regardless of the considerations of mere monetary quotations,* there is no doubt that in a short time the basic industries for railway requirements in India will be established in this country. The bounties, etc., now necessary, and thinly disguised in the annual administra-

* Cp. the remarks of the Indian Retrenchment Committee :—

"The High Commissioner has drawn our attention to the fact that indentors frequently tie his hands by restricting him, in spite of his protests, to a particular manufacturer or sources of supply. This inevitably connotes the payment of higher prices than would otherwise be necessary, and the High Commissioner has furnished us with several instances where large sums of money have been lost both to the Central and Provincial Governments as the result of such restrictions, and also by indentors condncting initial negotiations with the representatives of particular firms. These practices are greatly to be deprecated, and we recommend that orders should be passed strictly prohibiting them. Private communications between indentors aud suppliers shonld also not be permitted." (Para. 52, Part IV *Ibid.*) To those acqnainted with the customary reticense of official language, this cannot bnt sound severe censure; and, if it means all that it implies, the practices must be far more questionable than the letter of the remarks would imply. Every year, however, even now, the guardians or spokesmen of the Indian commercial interests have to draw the attention of the Government departments concerned to discrepancies between the tenders received and the orders for stores actually placed; and Government explanations, often amount to not even explanation, let alone a justification of the line of action pursued.

tion reports as burdens to the general tax-payer, may be admitted to be somewhat clumsy expedients to secure the ultimate end; but, in the absence of any others more suitable, we must accept even these to secure the aim of that degree of industrial development in India which is indispensable if this country is to take her proper place in the role of the leading nations of the world.

On the side of the capital expenditure, though not strictly concerned, we may notice here briefly the main problems involved. These, after the war, were two. The experience of the war had laid bare the weakness of a system, in which a surplus of profits from the general conduct of the railways was declared, without any adequate or satisfactory provision being made for the renewal and replacement of the worn out parts. More satisfactory rules for making depreciation provision were thus the first necessity. Secondly, the ravages of the war, as well as the expectations of a post-war growth and expansion of business, demanded a provision for extension or improvement of the existing railway estate, which necessitated considerable capital outlay. It was thought unjustifiable to incur this capital outlay from the current revenue, whether it was in connection with the renewal and replacement of parts worn out, or in regard to the extension and improvement of individual lines. In order to guarantee a degree of certainty to the railway authorities in this behalf, a five years' programme was voted in the first Assembly (on the recommendations of the Railway Finance Committee of 1921–2) aggregating Rs. 150 crores, the sum to be distributed between making good the wastage and providing the necessary extension and improvement as may seem best.*

The same Railway Finance Committee had also recommended the separation, on specific lines, of the railway from the general budget; but the Assembly could not in 1922, nor even in 1923, make up its mind on this crucial question. A further Committee of the House was appointed to investigate into this matter, and it recommended that railways should make a net contribution to the general revenues of the country of 1% on the total capital at charge on the commercial lines†. If there were profits in excess of this, one-fifth of the surplus must be paid into the common purse. If the amount available for transfer to the railway reserve, after paying the above contribution, exceeded in any year Rs. 3 crores, one-third of the excess over 3 crores should accrue to the general revenues. This basis was accepted

* Cp. the Annual Administration Report of Indian Railways for 1921–2, p. 4.

† On the 13th February, 1922, a resolution was moved in the Council of State recommending the separation of the accounts of the "military or strategic lines" from those of the purely commercial lines; and the profit or loss on the former should be credited or debited to the military department, and also that further capital outlay on such lines should be charged to the Army Department. Government accepted the first, but negatived the latter portion of this resolution. The entire railway enterprise is, therefore, a collective concern, though since 1922, the working of the so-called strategic lines is separately shown. The only comment on this, we feel it necessary to add here, is that there is not a line of railway in India which would really be said to be due wholly and solely to commercial considerations, whether in its inception, alignment or operation.

by Government*, and since 1925, therefore, the Railway Budget is entirely separated from the general Budget of the country on these lines.

* Cp. The Text of the Resolntion for Separation of Railway Finance—

Resolution regarding the separation of Railway from General Finances, adopted by the Legislative Assembly on the 20th September 1924.

"This Assembly recommends to the Governor General in Council that in order to relieve the general budget from the violent fluctuations caused by the incorporation therein of the railway estimates, and to enable railways to carry out a continuous railway policy based on the necessity of making a definite return to general revenues on the money expended by the State on Railways.

(1) The railway finances shall be separated from the general finances of the country and the general revenues shall receive a definite annual contribution from railways which shall be the first charge on the net receipts of railways.

(2) The contribution shall be based on the capital at charge and working results of commercial lines, and shall be a sum equal to one per cent. on the capital at charge of commercial lines (excluding capital contribnted by companies and Indian States) at the end of the penultimate financial year, *plus* one-fifth of any surplus profits remaining after payment of this fixed return, subject to the condition that, if in any year railway revenues are insufficient to provide the percentage of one per cent. on the capital at charge, surplus profits in the next or subsequent years will not be deemed to have accrued for purposes of division until such deficiency has been made good.

The interest on the capital at charge of, and the loss in working, strategic lines shall be borne by general revenues, and shall consequently be deducted from the contribution so calculated in order to arrive at the net amount payable from railway to general revenues each year.

(3) Any surplus remaining after this payment to general revenues shall be transferred to a railway reserve; provided that if the amount available for transfer to the railway reserve exceeds in any year three crores of rupees, only two-thirds of the excess over three crores shall be tranferred to the railway reserve, and the remaining one-third shall accrue to general revenues.

(4) The railway reserve shall be used to secure the payment of the annual contribution to general revenues; to provide, if necessary, arrears of depreciation and for writing down and writing off capital; and to strengthen the financial position of railways in order that the services rendered to the public may be improved and rates may be reduced.

(5) The railway administration shall be entitled, subject to such conditions as may be prescribed by the Government of India, to borrow temporarily from the capital or from the reserves for the purpose of meeting expenditure for which there is no provision or insufficient provision in the revenue budget subject to the obligation to make repayment of snch borrowings ont of the revenue budgets of subsequent years.

(6) A standing Finance Committee for Railways shall be constituted consisting of one nominated official member of the Legislative Assembly who should be Chairman and eleven members elected by the Legislative Assembly from their body. The members of the Standing Finance Committee for Railways shall be *ex-officio* members of the Central Advisory Council, which shall consist, in addition, of not more than one further nominated official member, six non-official members selected from a panel of eight elected by the Council of State from their body and six non-official members selected from a panel of eight elected by the Legislative Assembly from their body.

The Railway Department shall place the estimate of railway expenditure before the Standing Finance Committee for Railways on some date prior to the date for the discussion of the demand for grants for railways, and shall, as far as possible, instead of the expenditure programme revenue show the expenditure under a depreciation fund created as per the new rules for charge to capital and revenue.

(7) The railway budget shall be presented to the Legislative Assembly if possible in advance of the general budget, and separate days shall be allotted for its discussion, and the Member in charge of railways shall then make a general statement on railway accounts and working. The expenditure proposed in the railway budget, inclnding expenditure from the depreciation fund and the railway reserve, shall be placed before the Legislative Assembly in

[*Continued on p. 350*

The financial results, under the new dispensation, may be summarised as follows :—

The total earnings of all railways in 1924–25 aggregated Rs. 114'75 crores; of this, the railways of the Indian Government accounted for a total of 101'5596 crores, against the working expenses for the same of Rs. 62'9078 crores, including depreciation. After paying interest on Government capital (21'27 crores), as well as on capital furnished by companies (2'67 crores), and deducting the land, subsidy and other miscellaneous charges of Rs. 16'31 lakhs, a gain was left of Rs. 13'12 crores. From this the Government contribution was calculated to be 6'7697 crores leaving Rs. 6'3513 crores to be carried to the railway reserve. The Government contribution was made up as follows :—

		Rs.	
@ 1% on the capital at charge in 1923–24	... ...	= 5'4042	crores.
@ 1/5 of the surplus of Rs. 4'5013 crores	... ...	= 0'9003	"
1/3rd of the excess profits over 3 crores ...	... ...	= 1'6756	"
Total	...	= 7'9801	"
Less losses on the strategic lines ...	... ...	= 1'2104	"
Total net contribution to the State	... ...	= 6'7697	"*

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the form of demands for grants. The form the budget shall take after separation, the detail it shall give and the number of demands for grants into which the total vote shall be divided, shall be considered by the Railway Board in consultation with the proposed Standing Finance Committee for Railways with a view to the introduction of improvements in time for the next budget, if possible.

(8) These arrangements shall be subject to periodic revision, but shall be provisionally tried for at least three years.

(9) In view of the fact that the Assembly adheres to the resolution passed in February 1923, in favour of State management of Indian Railways, these arrangements shall hold good only so long as the East Indian Railway and the Great Indian Peninsula Railway and existing State-managed railways remain under State management. But if, in spite of the Assembly's resolution above referred to, Government should enter on any negotiations for the transfer of any of the above railways to company management, such negotiations shall not be concluded until facilities have been given for a discussion of the whole matter in the Assembly. If any contract for the transfer of any of the above railway to company management is concluded against the advice of the Assembly, the Assembly will be at liberty to terminate the arrangements in this Resolution.

Apart from the above convention this Assembly further recommends—

(*i*) that the railway services should be rapidly Indianised, and further that Indians should be appointed as Members of the Railway Board as early as possible, and

(*ii*) that the purchases of stores for the State railways should be undertaken through the organisation of the Stores Purchase Department of the Government of India."

* "This, however, does not represent the payment that will have to be made ultimately to the State in connection with the profits for the year 1924-25. The capital of the State invested in commercial lines at the end of the year under report amounted to approximately 577 crores, and the 1 per cent. contribution on this will amount to 5'77 crores. The total gain after payment of interest charges on commercial lines in the year under report amounted to Rs. 14'70 crores, leaving a balance after payment of the 1 per cent. contribution of 8'93 crores. The State has to receive one-fifth of this, or 1'79 crores, the total contribution thus amounting to 7'56 crores. In addition to this there will have to be paid one-third of any surplus over 3 crores that will remain available after paying this contribution from the revenues of the year 1926-27. If the net revenues of 1926-27 at all approximate to the figures of 1924-25, the actual contribution from the commercial lines in respect of profits of the year under report will be approximately 8'94 crores." *Administration Report of* 1924-5, Ch. 2.

The separation of the railway from the general finances also made it possible to provide a proper and adequate depreciation fund. This fund is at present applied only to state-owned railways, though its institution on the company-owned lines will involve no alterations of the arrangements now in force, as between the Companies and the Government. The broad principle adopted was:—

> "That revenue should pay for the cost of replacing or renewing property to the same standard of effectiveness as first provided out of capital funds; and that only when there was a genuine improvement of that standard should a measurement of the betterment, determined in many cases by elaborate formulæ, be met from capital ....The depreciation fund will be credited annually with the amount equal to the total expenditure to the end of the previous financial year on all units of each class of asset, which credit continues year by year in each case until the period assumed for the normal life of each unit has expired. At the end of the assumed normal life of each unit the depreciation fund will thus have received credit for the original cost of each asset."*

VIII.—Railways and the General Economic Development of India

Twenty years ago, the railway policy of the Government of India used to provoke considerable criticism, as on the whole the railways showed a deficit.† Since the beginning of this century, however, the railways, as already observed, have turned the corner; and so the sting seems to be taken out of the chief criticism against them. People are apparently more willing now to admit the advantages of railways to the commerce as well as to the revenues of the country, and less inclined to find fault with or exaggerate the weak points of the railway administration of the past.‡ In a work of this kind, however, we cannot afford to lose sight of the perspective. Viewed in their proper perspective, the past errors, if any, and the present advantages, such as they are, appear to be no more unusual than can be expected under the circumstances. In this section, therefore, we shall consider the effects of the railways on the general economic development of the country.

At one time it was thought that after the Government of India had helped to construct the chief trunk lines, linking up the principal centres of inland trade with the sea ports, there would be no need for further outlay on railways which would cause the tax-payer anxiety, beyond, of course, the

* Cp. 6 & 7 of the *Administration Report* 1924–5.

† It was estimated before the Welby Commission that the net total loss to the State on account of the railways since their inception had amounted to Rs. 51·84 crores by 1896. Possibly the total net loss by the end of this century and including the loss in 1908–09, would not exceed Rs. 60 crores. The net income since 1900 would exceed the loss thus incurred. Mr. Chandrikaprasad in his work on the *Indian Railways* computes this loss, upto the end of 1919–20, to be Rs. 58·07 crores, to which if we add interest at 4% compound interest, the aggregate loss would be Rs. 346·06 crores. Cp. op. cit. Appendix 3*a*.

‡ See the Minute of Lord Dalhousie 1853 and the moral and material progress report of 1873 (already quoted). See also the evidence of Sir A. Cotton before the Parliamentary Committee of 1872–74.

necessary expenses of the maintenance and improvements of the lines already constructed, and possibly their branches.*

The Famine Commission of 1880 considered 20,000 miles of railways all over India to be quite sufficient for the purposes of commerce as well as famine relief. Lord Curzon ambitioned to have at least 25,000 miles of regular track.† The idea that there would be some pre-destined limit to the extent of railways needed by the country was first assailed, some 60 years after the commencement of railway enterprize in this country. The Committee of 1908‡ was the first official body definitely to pronounce that no limit could be assigned to the extension of the railways in India beyond the natural restriction of available capital. And truth to tell, the idea of predetermined limit seems to be absurd in the case of an enterprize which must necessarily expand with the expansion of the industry and commerce of the country. Any estimate made, and limit assigned, in any given year, on the basis of trade needs then existing, is bound to be exceeded or prove inadequate a generation later, when the expansion has been found to be much greater than was anticipated.§ Besides, in the case of railways, they being themselves the most powerful factors in the opening up of the country, the calculations, if made without any allowance for the effects of a projected line, are certain to be upset by the effect turning round and becoming the cause.

While, therefore, we cannot determine the extent of railway requirement of a country by its population or trade statistics at any given date; while we cannot say that India ought to have three times the railway mileage of the United States, because her population is at least three times as great; or that she should have one-fourth of the railway mileage of the United Kingdom, because her total volume of foreign trade is one-fourth that of England; we must at the same time abandon the hope of assigning a definite limit beforehand which would be quite adequate for all time to come, or even for a generation. At the present moment, for example, we seem, inspite of our 38,000 odd miles of railways,‖ to want considerable railway extension to link up Burma with India and open up Burma; to link up Delhi, the capital, with Karachi, the nearest port, by a direct broad gauge line; to connect the metre gauge system of the Northern

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* Before the Acworth Committee on Indian railways, the bulk of the Indian public opinion, judging from the evidence, seems to have been in favour of rapid additional construction. The pendulum seems to have swung round from the days when the annual protest against railway expenditure was as regular an item in the budget discussion as that against army expenditure. The explanation is to be found in the greater earning power of the railways combined with the growing force of the commercial interests. For this point cp. in particular, the evidence of the Indian Merchants' Chamber and Bureau.

† Cp. Lovat Fraser's "*India under Curzon and after.*" It was among the first twelve objectives held before his mind's eye by Lord Curzon that the railway mileage in India be raised to 25,000.

‡ Cmd. 411 of 1909 already referred to.

§ In this connection one might cite with advantage the railway effects in the United States, especially in opening up the Middle and far West.

‖ This does not represent the total miles of railways available in India. This is the length of single track. Including double track and sidings, the total Indian mileage would not be much short of 42,000.

and Southern India; to join up India and Ceylon by a railway bridge. This programme if carried out might mean anything from 5,000 to 10,000 miles more at a probable cost of not less than 50 crores. And even this programme may have to be exceeded, long before it is completed, by the possibility of a good commercial railway from Baluchistan or Afghanistan to Persia, and thence, through Mesopotamia to Egypt, and through Asia Minor to Turkey and Europe.

But while we must give up the idea of setting a rigid limit in advance to the total construction, we might yet criticise the individual projects from a financial stand-point. Not all the railways of India have been constructed wisely or even economically. The North-Western Frontier Railway was for a long time a white elephant, and in all probability would have continued to be a source of heavy drain, but for the opening of waste lands in the Punjab by means of the Punjab irrigation works. The much desired direct broad gauge connection between Karachi and Delhi, whatever its political expediency might be, is likely to be a source of considerable loss, running as it must through the desert tracts of Rajputana. The railway through the Khajak and Bollan Passes has been constructed at such a heavy cost, that the critic might well say the whole line "has been ballasted with rupees." Examples of this nature can be multiplied to an alarming extent. They all show that mere **commercial considerations have not exclusively influenced railway** construction in India. There is no need to deny the military and political necessity and importance of the railway. There is no occasion to assert that no railways should be constructed for other than commercial reasons. Considering, however, the railways as a commercial proposition, and admitting the underlying hypothesis that sooner or later they are expected to pay all charges in connection with them, the critic of the Indian railway system might well pronounce against them. Those railways, at any rate, which are reasonably expected to bear all their own charges, may be constructed from borrowed funds; but the attempt to construct those railways, also, which, there is no reasonable ground to hope, will pay their own charges in a reasonable time, from borrowed funds, is apt to involve the whole railway policy in an unfavourable and unnecessarily indiscriminating criticism. If the military and political railways have to be constructed, let them be frankly shown to be a net charge, and not a possible source of revenue. Any unexpected profit—as in the case of the North-Western Frontier Railway—may be treated as a windfall, or may be earmarked for similar other projects. The suggestion, therefore, which in the past used frequently to be made, that all necessary, but productive railways should be constructed out of the borrowed funds, has even now not lost all its importance. And it would be a great improvement in our railway finance, if all military or political railways are charged to the military budget entirely.*

* It is not among the least of the offences of military finance in India that many items, truly military, are not shown in the military budget proper, *e.g.*, Interest and Railways. See the resolution of the Council of State *re*: the separation of the accounts of the strategic from those of the commercial lines, already referred to. Since the separation of the railway finance, the above suggestion is not of material importance any longer.

The point may indeed be well urged against the entire railway policy of India that the mad haste to construct railways has rendered the authorities in India utterly blind to the possibility of **alternative means of communications**, which, being cheaper, would be more suitable to Indian conditions. It has been said that in England the canals have a past but no future. The rivalry of the railways has killed the inland navigation in England. But we in India cannot afford always to follow the example of England in such matters. In England canals have ceased to be important, not only because of the ruthless railway competition, but also because the rivers are small and relatively shallow, and would not admit of large ocean going vessels getting water sufficient to navigate. In India our rivers are long, broad, deep, flowing, at least in Northern India, through a plain, which would require no very great cost to maintain. Besides, for our inland and coasting trade at any rate, the average size of the vessel is by no means so great as to be inadmissible for river navigation. If navigation canals had been constructed in North Western India wherever there are now railways, India might possibly have escaped half her present public debt, at the same time that the facilities to trade would have been as great and more suitable. The bulk of Indian trade consists in the movement of raw materials and food stuffs—bulky articles which would certainly find railway rates more burdensome than water carriage.*

Then, again, it is always more profitable to run railways when there is a large load in a single consignment, with through long distance haulage, than if the train load has to be made up by small bits of traffic, collected in driblets, at innumerable small stations.† The waste of railway stock alone that is

* This suggestion was made, among others, by the late Mr. Gokhale in his evidence before the Welby Commission, though his line of reasoning seems to be different from that adopted in the text. He felt that the depressed condition of Indian finance, coupled with the fact that India had already (1897) got the most important lines completed, suggested that the heavy programme of further construction must really have been undertaken under pressure from the English mercantile classes, and not in the true interests of India. Perhaps this criticism would not be sustained if aimed at the general railway policy of India, though at the time he was speaking, and in cases of individual projects even later on, the criticism had more than a grain of truth in it. It stung because it was true. Sir D. E. Wacha suggested that the railway account be kept altogether separate, as under that system new projects would be more likely to be considered on their true commercial merits than by secret wire-pulling; and that further borrowing necessitated by such projects would depend more on the commercial possibility of the venture itself than on the ability of the tax-payer to bear the interest charge. The evidence before the Welby Commission of these two gentlemen on railway finance is very instructive. The Mackay Committee of 1918 recommended a triennial programme of railway construction costing Rs. 12 crores, and suggesting that the required funds be obtained by diverting a part of the rupee coinage profits which went to the Gold Reserve Fund. The recommendation is obviously objectionable, and the Chamberlain Commission on Indian Currency and Finance has definitely pronounced against it. It is now of no practical importance. See also the present writer's *Trade, Tariffs and Transport in India* for a more detailed study of the effects of railway rates on the economic development of India, and contrast of the same with the actual or possible charges on alternative means of road or water transport. Cp. also paras. 152–155 of the Acworth Report on Indian Railways. (1920–21).

† Water carriage is so much cheaper than rail that it has been estimated that a ton of goods costs as much to carry from the Cape to Southampton by sea, as it would be to carry the same load from Southampton to Manchester. It stands to reason, since on the waterways—whether on the ocean or even on the river—there is no outlay necessary for the construction and maintenance of the permanent way, at least as compared to similar outlay on the railroad. The outlay on locks, docks, warehouses, harbour works, dredging, etc., would all be more than set off by the railway outlay on stations, sheds and sidings.

necessarily involved in such a method is enough condemnation of the costly, even though more rapid, means of communication.* Now, in India, the average size of a consignment is much smaller than in England, and infinitely smaller when compared to the average consignment in the United States. Railroad transport is cheap only on a large scale. The development of road transport is now far more promising, after the advent of the motor lorry, in India with its small consignment and short distances, than railway transport could ever have been expected to be.† Yet in spite of the obviously better alternatives, there is so far no indication that the Government is alive to the possibilities of road or water carriage. The suspicion seems unavoidable that the vested interest of the railways would not permit any alternative means of communication to be developed, if it is at all likely to threaten the profits of the railways.‡ And the danger of this enormous vested interest is all the greater, because it forces the contrast or conflict of interest between the state and the community too painfully to escape notice or avoid criticism for a long time. One may, of course, easily understand why the the State in India with its enormous capital liability, and its one good asset the railways, should be unsympathetic towards any suggestion likely to upset their results of patient, painful labours in connection with the railways. But assuming that there are great possibilities of an expansion in traffic ; and assuming further that it is possible to classify traffic so that the railways are assigned the heavier or more valuable traffic which can bear higher rates, reserving for the alternative means of communication the more bulky, but less paying traffic, there is no good reason for the State in India to look askance, even now, at any suggestion for diverting the energies of their transport department to other channels in place of the railways.§

In spite of these disadvantages, it has been claimed that railways have proved of the greatest possible advantage to India, economically speaking. Appeal is made to the increase in the value of imports and exports, to the growth of traffic on the railways, and the amount of earnings of the railways. When, however, we analyse the trade or traffic returns, when we study the the details of Indian exports and imports, the opinion seems to be not at all unreasonable or unfounded that the Indian railways have done nothing to

* It is a well known experience that it pays better in America to have long trains, huge wagons, and powerful locomotives, because of single train loads available in such huge units in that country. In England, on the other hand, the relatively smaller consignments collected from a number of places, necessarily make railway facilities dearer than in America, and yet the profits of the railway companies are much lower than in the States. In India of course there can be no comparison. See Acworth's *Railway Economics*.

† See however the chapter on 'Road Transport' in the present writer's *Trade, Tariffs and Transport in India*. It may be added that the cost of road transport there analysed would now show very considerable retrenchment.

‡ Cp. Paras 153–155 of the Acworth Report on Indian railways relating to block rates and the destruction of the Indian ports and consequently of the coasting trade, owing to the invidions policy of railway rate making.

§ Strachey calculates the advantages of railways to the Indian people by pointing to the difference in the cost of the transport by carts and that by rails. As an economic argument it is worthless, or only invites the retort that the saving would have been much greater, if, instead of railways, our waterways had been developed to the same extent, since water carriage is ever so much cheaper than rail carriage. See the evidence of Sir Arthur Cotton before the Parliamentary Committee already referred to, and his larger work.

foster the Indian industries and develop the Indian commerce in the right direction. It has been the common and most deplorable feature of the foreign trade that we export chiefly raw materials for foreign manufactures, and foodstuffs, while we import manufactured articles from abroad. The railways have, if anything, intensified this undesirable feature of our foreign commerce. Admitting that the fixing of railway rates is an extremely complex question, and that the ascertainment of the ultimate effects of any particular rates on the total commerce of a country is too difficult for clear observation, we may nevertheless observe that railway rating has an important effect on a country's industrial development.* While some railways in India have been restrained no doubt by the fear of competition from inland water transport or from coastal shipping, on the whole the tendency of railway rates has been to divert traffic from one Indian port to another, rather than to make a careful examination of the effects which the rate imposed would have on the total cost of conveying the goods to their ports of foreign destination, and, therefore, on the ability to compete with products from rival sources. Within India, also, the rate seems to have been so arranged as to afford special facilities for raw materials to be conveyed to a port for export.† It is no doubt true that exportable materials, being in

* The Acworth Committee of 1920–21 was appointed to investigate the question of State *vs.* Company management of railways. The terms of reference, however, could, if they would, admit of their discussing the alternative means of transport, especially as any suggestion of alternatives would mean regulation of traffic, and that in its turn would mean a much more effective state control than is the case to-day. With the exception of Sir A. Cotton of irrigation fame, there has been hardly any officer of distinction during the whole period of British rule in India, who had advocated water carriage for this country, at all corresponding to the inland water communications of France or Germany. Cotton was, of course, an enthusiast, and offered to link up all important centres in India by water, if some of the money spent on railways were turned over to water transport. See his evidence before the Parliamentary Committee already referred to. Replying to Mr. Lloyd, Cotton explained the apathy towards water carriage on the ground of jealousy of the railways. The one defect of monopolist state enterprise under existing constitution is that it renders the state lethargic, and often interested on the wrong side. When it fancies its interests attacked, the monopolist state can be as obstinate and unreasonable as any private capitalist. Thus though the Prussian state railways were once the admiration of the world, it had latterly come to be observed that that railway administration was averse to introducing the most up-to-date facilities or comforts on the score of cost, and that it had consequently lagged behind. If that could be said of the Prussian Government, the remarks in the text about the Indian Government cannot be considered at all unjustifiable.

Since the publication of the first edition of this work, there has been very considerable activity on the part of Indian students of the economic problems affecting their country, particularly in regard to a careful study of railway rate-making. Amongst the most considerable might be mentioned the work on *Indian Railways* of Mr. Chandrika Prasad, a retired Traffic Superintendent, and of Mr. S. C. Ghose specially devoted to the problem of rate-making. Mr. Jagtiani s work deals with the general problems of railway finance, while Mr. S. N. Haji's *Economics of the Shipping Industry* provides an admirable monograph on rate-making in sea-transport.

† In Germany, France, Belgium and Austria-Hungary, railway rates were a powerful weapon for industrial protection or special developments. Thus in Germany, to develop the colonies, all exports of agricultural implements were rated equally as per space or weight, thus giving an advantage to the exporter of bulky materials occupying a lot of space, though of little weight, as they were charged at his option according to weight. As early as in October 1884, the Railway Council in Germany were instructed to observe the following principles in charging rates: State Railways should grant preferential tariffs (*a*) to assist agriculture and industry by granting cheap rates for raw materials or subsidiary materials, (*b*) to assist German manufactures in competition with foreign importers at home, and to assist German export trade abroad; (*c*) to assist German ports in competition with foreign ports; (*d*) to

[*Continued on p. 357*.

large quantities, admit of considerable economies, from the standpoint of the railways in the use of rolling stock, haulage charges, terminal expenses, etc., and that therefore railways can quote for them better rates, without intending any nndne preference for one class of traders against another, or for Enropeans against Indians. But until the railways, no less than the Government, accept the fundamental principle, that in future the country's efforts would be directed towards making up our own raw materials to the most finished state possible before export, there would be difficulties and discontent against any rates that the railways might charge; and Indian industry cannot be said to benefit from the railways as much as it is entitled to. The Industrial Commission has laid down the principle that railway rating, so far as it affects industries, must be such that internal traffic shonld be rated as nearly as possible on an equality with traffic of the same class over similar distance from the ports;* and though this principle must admit of several exceptions, it is the only safe guide if Indian industrial development is to be the first consideration of the railway administration in India.

The foregoing criticism is based entirely on general considerations of the governing policy in connection with the railways. Points of detail, even when they are not irrelevant, suffer from the great disadvantage of being inapplicable except at a given moment. Besides, criticism in detail is often directed against accomplished facts, and as such has the additional demerit of being ineffectual. We have, of course, no desire to minimise the importance of such criticism. Contemporary politics would be impossible if points of detail, merely because they are details, are to be rigorously excluded. But in a general exposition, such as is attempted here, it would be undesirable to attach too much importance to details, if for no other reason, because such a conrse would be likely to make the reader or the student lose the sense of proportion. We shall, therefore, barely content ourselves by a mere mention of those points of details, which, indeed, must have been telling in their own day, but which now seem to be somewhat stale. Thus the whole system of guarantee may be condemned, not because no guarantee was at all necessary, but because the high

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look after the interest of German railways and waterways in competition with those of foreign nations (see appendix 4, page 316, of Kirkaldy and Evan's *History and Economics of Transport*). In India the railways, commenced as famine relievers, were continued as military or political adjnncts, and are developed as necessary aid to foreign commerce. They have yet to be regulated as an important engine of industrial development.

The Acworth Committee recommended a Railway Rates Tribunal, which has only jnst materialised after a delay of 5 years. The constitution and powers of this tribunal leave it open to qnestion if it will ever succeed in getting the Indian Railways to pay that close, sympathetic, interest to the development of Indian industry, which ought to be the one great aim of snch a vast state enterprise. The policy of making the central exchequer depend in no inconsiderable measure upon surplus profits from the railways, now adopted, makes it still more doubtful if the central government will ever be made to utilise the railways for this purpose, even if it should involve some sacrifice of revenue.

*The *Industrial Commission* (para 371) mentions the case of the rates on raw hides which are 50 per cent. less for ports than the internal rates, thns handicapping the Indian leather industry.

guarantee actually given inevitably involved wasteful construction, besides burdening the Government with a heavy interest charge over a long period, and thereby precluding them from taking advantage of any subsequent improvements in their credit and the consequent possibility of easier borrowing. (*b*) With the single exception of the Indian Railway Company, the repurchase from the guaranteed railway companies was not effected on the first expiry of the contract. The renewal of such contracts, even when they were quite favourable to the Government, may well be said to have unjustifiably alienated a substantial portion of the public revenues for private benefit. (*c*) The price paid on repurchase to the companies was in every case on the unjust basis of the market value of the stock at the date of the purchase, which was therefore naturally inflated to the prejudice of the Indian Government. Apart altogether from the wastefulness engendered by the original guarantee system, this display of generosity by the Government of India cost the tax-payer from one fourth to one third more of the capital actually invested, and the assets really obtained for the money by the Government. While the contracts lasted, the companies had been afforded every concession that the temerity of the promoter could demand, and the influence of the directors with the Government of India could secure.* The system of crediting the profits every half year was another specious advantage of the kind which might well have been protested against by the spokesmen of Indian public opinion. The present system of releasing the railway, even after its acquisition by the Government of India from an expiring company, is still a ground of strong criticism against the general policy concerning the railways. But as that point is more closely connected with the larger question of the nationalisation of the railways in India, we shall reserve it for discussion in the next section.

If the obtaining of a steadily growing revenue surplus from the collective railway enterprise of the state, without imposing an unjustifiable strain on the country's industry or commerce were the only concern, the authorities concerned cannot rightly claim that they have exhausted all likely channels of such an increase, without making the railways a burden to the country. In the years immediately following the world-war, Government went on blindly adding to the rates and fares, which, instead of increasing the revenue in proportion, actually resulted in a rapidly rising deficit. If, however, instead of this stupid, suicidal policy, they had endeavoured to make their railways really more attractive to the public and more serviceable; if they had graduated fares more scientifically, and charged the rates much more truly according to the capacity of the traffic to bear the rate, the revenue would have grown by itself. The authorities, however, are slow to realise the possibilities of such a traffic as that furnished by the

* The Government of India in their ill-balanced budgets after the war committed the stupid mistake of increasing in effect the railway rates on such important industrial requirements as coal and coke. If Government were only in need of revenues, and the railway rates were the only means to increase their revenue, why not levy a surcharge on all rail-borne traffic proportionately? In the absence of such a policy, Government cannot but invite suspicion as to their ulterior motives.

growing number of foreign tourists. India is still a paradise for foreigners. Why not get from them a full price of their pleasures in the shape of special railway rates, of course not without special facilities? Again, on the nearly 65 crores of passengers travelling by Indian railways, a compulsory system of insurance against accidents on the railways would easily add 4 crores to the railway receipts,* without the addition in any way proving a public burden.

IX.—Railway Nationalisation in India

The question of nationalisation of railways has quite a different significance in this country from what it usually has in England or the United States for example. Our railways have practically all been constructed by Government funds, either by guaranteeing private capital when first it was invited for railway investment, or by direct borrowing by the Government for such purposes. There was, therefore, never any question in India as to ownership. At the present time, since the old guaranteed companies have all been bought out in a sense, our railways are national property; and from the purely financial stand-point they make definite contributions to the public purse. But the question of nationalisation nevertheless occurs in India as in other countries, though not in the same form, because of the Indian Government's liking for private enterprise, and because of the prevailing system of releasing the systems for working by the companies themselves on payment of a portion of the profits, and the consequent evils of a private Board of Directors fixing a policy of railway management, not always in the best interests of the country.† The inevitable conflicts between the Government Department—the Railway Board—told off to look after the railways and the actual managing authorities of the railways; the complaints of the traders about undue preference to some lines of traffic and of obnoxious rates to others; the complaint by the employees about unfair treatment; and a number of other kindred evils led to

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* At the rate of 1 anna per passenger travelling, though, of course, in actual practice the charging would have to be much more exact and actuarial, taking into account the distance travelled as well as the class travelled in, and the amount insured for. The last might be a fixed amount, as the £1,000 insurance scheme by newspapers in England.

† In a resolution of the Government of India, dated the 19th February 1925, they have announced a new policy for the construction of branch and feeder lines, not likely to be remunerative. "The Acworth Committee had commented severely upon the system under which the money required for financing the construction of branch and feeder lines to be constructed and worked by State-owned railways was raised, and pointed out that this system, while it has enabled lines to be built that otherwise could not have been built, had no other merit, and recommended that the Government, so far from approving of the continuance of this system, should aim at reducing the number of existing companies. The Government of India, in the resolution referred to, have abolished the previous system, and are now prepared themselves to find the capital required for the construction of extensions or branches to existing main systems. In the same resolution, Government also announced their readiness to consider the question of constructing branch or feeder lines, which were not expected to be remunerative from the point of view of railway earnings, upon a guarantee against loss from a local government or local authority which might desire to have such lines constructed for purely local reasons, or on account of administrative advantages likely to accrue in particular areas." (*Report by the Railway Board on Indian Railways for 1924–25* para 8.)

the discussion of this subject. The subject was raised in the Imperial Legislative Council in 1915 by an Indian member, himself afterwards a member of the Bombay Government. It was suggested that on the expiry of the present working leases, the Government should take over the management as well as ownership of these railways, which should in future be conducted as a public department of the state. The Government invited public opinion on the matter, and afterwards appointed the Acworth Committee to advise on that question. That Committee was equally divided; but the Legislative Assembly has compelled the Government, as we have already seen, to adopt the policy of direct state management in respect of the lines whose term expired recently.* The stock arguments of the state being unfit to conduct such a department, in spite of seventy years of blunders and experience, were heard in this country as much as in the United Kingdom, in addition to the more responsible apprehensions, voiced by some thinkers, about the impossibility of realising all at once the different ideals and mutually destructive benefits expected from state management. We are told, for example, that if the railways are to be conducted in the hands of the state as a revenue concern, it would not be possible at the same time to obtain low rates for the trader, and better wages for the employees. If revenue is not to be prime consideration, then the state, we are told, seems to have made the best possible arrangement from its stand-point by leasing the working to the companies. Expert knowledge is obtained at relatively insignificant cost to the Government as represented by that portion of the profits which are paid over to the managing company. The Government, moreover, escapes the inertia which would, so it is urged, undoubtedly follow if they became the managers as they are the owners of the railways. Notwithstanding the force of these arguments, it cannot but be felt (1) that the arrangement of leasing railways for management to private companies obviously costs the Government a share of the profit, and the directors' fees which might well be an addition to the public revenues. The additional work on the railway board will be very little if the management is taken over along with the ownership, and the possibilities of a national outlook would be much greater. The apparent conflict of interests between the railway employees if turned into public servants and the general trading public, is, though not entirely unreal, still a distant contingency in India. When it does occur, there is nothing to prevent our enacting special legislation to govern the employees in such services of public utility, as they have done in the United States and in the Dominion of Canada, and thereby to minimise the chances of a conflict which would result in serious losses to the public. Complete abolition of this possible danger is, of course, out of the question, so long as nationalisation is adopted in one branch of a country's economic life only; but we can help by such legislation to reduce the occasions of conflict, and to lessen its intensity when

* The practice of choosing Railway Directors from retired high officers of the Government of India is even now quite commo.

one actually occurs. The conflict of interests between the tax-payer and the trader is, as far as we can now see, likely to be more serious. The Indian railways are a paying concern now, and everybody expects them materially to assist the exchequer in the future. The railways are also recognised to be excellent weapons of affording substantial, though disguised, assistance to local industries. It is more than probable that the demand for a readjustment of the railway rates in India, so as to favour the local manufacturer, would, in the immediate future, assume a very serious shape. The state management of railways would naturally make the demand more intense and less easily appeasable than if the railways were managed by the companies. Readjustment of rates, which would not take into account even the cost of operating, might conceivably involve some loss, and consequently the expected relief to the tax-payer might be substantially reduced. This is indeed a serious contingency. But the differentiation between the tax-payer and the trading public is not quite accurate, and the assumption based on such a differentiation may quite possibly not work out in practice as per expectations. Besides, the railways are likely to add to their profits by reduced rates or readjusted rates, rather than lose, as much from an inevitable expansion of business, as from the higher charges on selected articles intended to be discriminated against. The Indian railways cannot yet be said to have reached what in economic theory would be called the limit of working on the principle of increasing returns. There are possibilities of considerable reductions in the working expenses, in getting the fullest service from the men and materials engaged; and, therefore, the assumed conflict, even if it does take place, is likely to afford a solution not at all hostile to the principle of state management of our railways. On the other hand, it is too patent a fact to need any laboured arguments to support it, that a truly national policy in railway management is not to be expected so long as we have boards of directors, located in a place not amenable to the authority of the Government of India; so long as the custom of selecting directors from among the influential retired public servants of India continues. Whether it is the question of the treatment of the third class passengers, who provide the bulk of the passenger traffic, and also the greater portion of the earnings on that traffic; or it is the question of the treatment of Indian labour in the railways; or the adjustment of rates for the benefit of Indian traders, or the provision of efficient well-equipped workshops and factories in India for the supply of railway plant and material;—our railways will not afford the full benefits, direct and indirect, that might be legitimately expected from them, unless they are managed directly by the State. This aspect of the case outweighs, in our opinion, all the conceivable disadvantages of state management, even if every one of them should materialise. We have yet to learn to look upon the railways as something more than military convenience and commercial facilities; something in addition to a source of revenue to the state, and of employment to a considerable section of the population. This wider purpose of the railway will not be acomplished with private management and absentee

tion: a new light railway, a navigation canal, or a fleet of motor lorries on improved roads, in the light of local conditions and requirements. The resources would thus be economised in the best possible manner and with the greatest possible benefit.

The question of separating the railway budget from the general finances of the Government of India would, if realised, add materially to the rapidity and expense of construction. It seems unlikely, under the existing financial position of the Government of India, that such a consummation would be reached in the near future. But even if it were accomplished, and new railway construction were to be judged on the collective result of the existing enterprise, we would still consider it advisable not to hasten construction until the alternative means of transport have been fully considered.*

* These remarks are also left unaltered as from the first edition of this work, though in the meanwhile the principle of separating the Railway from the general budget has been accepted and acted upon. The apprehension expressed in the text is still far from groundless.

CHAPTER XII

The Incidence and Distribution of the Burden of Taxation in India

I.—The Method and Basis of Computation

The problem of computing the distribution and actual incidence of the tax burdens in India seems to be regarded as absolutely hopeless by the authorities concerned under the present state of our statistical material. The Indian Taxation Enquiry Committee, as well as the Economic Inquiry Committee proper, practically agreed in holding it to be impossible to tackle this problem at all satisfactorily.* The necessary material for such a basis consists in considering it in correlation with some idea of the average income in the country, including the source from which it is derived; in having the standard of living, and particularly of an irreducible minimum necessary for bare subsistence; in examining the general distribution of wealth in the community, in the form of incomes chiefly, without, however, ignoring entirely that form of capitalised wealth which consists of propertied assets; and, finally, in taking into account the use made of the revenue receipts by Government, which has the most intimate effect upon the taxable capacity of the people of a given country. We can ascertain, with a fair degree of accuracy, the last element in the calculus; but all the other factors are, officially at least, unknown. Unofficial and unauthorised attempts have no doubt been made for a scientific computation of the wealth of India and its distribution;† but so long as the Government would not accept

* Says the *Taxation Enquiry Committee* (para 479) :—

"What they are directed to do is to compare the shares borne of the existing total burden of taxation by different classes of the population, and it was added in the original order appointing them that it would be 'within the terms of reference to institute such an inquiry into the economic condition of the people as they might consider necessary for their purpose and to report on the adequacy of the material already available, making suggestions as to the best manner in which it might be supplemented and the most suitable agency for a wider economic inquiry.' The latter part of these instructions was subsequently transferred to the Economic Enquiry Committee....................From a perusal of the report of the Economic Enquiry Committee, however, it does not appear that this is a matter for regret. On the subject of the existing materials for such an inquiry they say that, as regards Estimates of Income, Wealth etc. no satisfactory attempt has been made in British India to collect the necessary materials on a comprehensive scale, and again that existing material is not sufficient to enable an estimate to be framed regarding the economic conditions of the various classes of the people or of any administrative unit or units."

† There is not an absolute dearth of any information on this most interesting subject. Parliamentary Committees and Commissions have more than once touched the fringe of this subject, both under the regime of the Company and during the direct administration under the British Crown. The most recent and perhaps the most notable may be mentioned as that of 1874–76 of which the late Prof. Fawcett was a distinguished member. Maj. Baring, afterwards Lord Cromer, is reported to have made an estimate of this sort as early as 1882, under Lord Ripon; while the regime of Lord Curzon was rendered notable by another attempt of the kind in 1902. The results of both seem to be disappointing in the

[*Continued on p. 365.*

or expose the results of such unauthorised private investigation, however eminent the names attached to such investigation may be, we can scarcely be justified in giving such evidence an importance co-equal with official and authoritative material on the subject.

II.—Official Computation of the Incidence of Taxation

Salt.
Excise.
Stamps.
Provincial Rates.
Customs.
Income Taxes.
Registration.
Schedule Taxes.
Land Revenue.

Before we discuss more fully this most interesting subject, let us note the rough-and-ready way in which such official material as there is even now in existence deals with the question. The marginally noted items are taken, in the statistical abstracts of the Government of India, to constitute taxes proper; and the burden of taxation is given alternatively, including land revenue, as well as excluding land revenue. The actual burden on this basis is given in the following table:—

Year.	Burden of Taxation per head. Including Land Revenue. Rs. a. p.	Excluding Land Revenue. Rs. a. p.
1901–02	2 6 6	...
1911–12	2 11 8	1 7 11
1912–13	2 13 10	1 9 8
1913–14	2 15 0	1 10 9
1914–15	2 13 7	1 9 7
1915–16	2 13 10	1 9 1
1916–17	3 4 2	1 15 4
1917–18	3 9 10	2 5 6
1918–19	3 11 8	2 7 10
1919–20	4 9 3	3 4 0
1920–21	4 14 2	3 10 3
1921–22	5 1 1	3 11 4
1922–23	5 6 0	3 15 4
1923–24	5 8 0	4 1 7
1924–25	5 9 9	4 2 9

It will be noticed that the official computer is doubtful even as to the propriety of including the land revenue figures before giving an estimate of the real incidence of the tax-burden in India, let alone those other forms of revenue, which, nominally income of a non-tax form, are in reality indistinguishable from taxes proper. We have already adduced reasons why we consider the income from the Post Office and the railways, as well as the water rates for Government irrigation works, to be really in the nature of taxation; and though we do not consider opium revenue, tributes from native states, and forest dues to be taxation proper, we cannot but add the departmental income in the shape of fees for petty services, and the income from specific cesses, *e.g.* that on cotton entering Bombay City, to be truly of the same nature as taxes, strictly so called. Official calculations, therefore, of the true burden of taxation in India are entirely misleading; the more so as they give no indication of either the basis, the capacity for bearing these taxes; nor do they correlate the income received with the burdens to be supported by each such income. In other words there is no

Concluded from p. 364]
extreme to those who held fast to the legend of growing prosperity of the Indian people during the British era. Mr. Dadabhoy Naoroji was the first Indian to tackle this subject in his *Poverty and UnBritish Rule in India*, while of late there have been further additions to the literature on the subject. The *Science of Finance* by Mr. Findlay Shirras is, though not officially official, a fair specimen of the official view; while the *Wealth and Taxable Capacity of India* of the present writer and his colleague K. J. Kambatta may be taken to be a specimen of the popular Indian opinion, as also the similar work of Messrs. Wadia and Joshi. The negative contribution of the Economic and the Taxation Enquiry Committees has already been mentioned.

attempt at comparing the real burden of taxation, no perception, in fact, of the true nature of taxation, which is a *deduction* from the wealth of individual citizens compulsarily exacted by the state in virtue of its sovereign authority. Further, this method of calculating tax-burdens makes no allowance for those other burdens, which, imposed by purely local governing bodies, amount to no inconsiderable proportion of the total burden falling on each citizen. For purposes of comparison such a calculus is worse than worthless, whether the comparison is with regard to the relative burdens at the different periods of Indian history, or with regard to the relative position in different countries.

III.—The Findings of the Taxation Committee

The findings of the Taxation Committee on this matter may also be reviewed in this connection with advantage. That body was not so entirely unmindful of all the factors indicated above as the Government of India seem to be. They opine, at the very outset of their investigation on this head, that "the problem bristles with difficulties, for, as Professor Seligmen has pointed out, the incidence of taxation is one of the most complicated subjects in economic science, and it is rendered more so in India owing to the lack of any reliable statistical material on which conclusions can be based."* On this premise, the Committee go on to consider the specific difficulties of the problem, and expose the fallacy of the popular conception which considers that the taxable capacity of any community could be easily determined, if only the average income per head in such a community is first ascertained. But this basis is impossible to fix within 10% margin, even in such countries as England, where statistical material is about as perfect as has been attained in any other land. In other countries of Europe, statistically more backward, the margin of error is in the neighbourhood of 40% to 50%; and in India such estimates as we have mentioned in a previous foot-note differ *inter se* by a very much larger margin.† "Even if it were possible to determine the figures with reasonable accuracy, they would possess a very limited value for comparison of the relative burden of taxation in different countries, for the true test of that is the relation of taxation to the taxable surplus or taxable capacity of the community, which is roughly gauged by the difference between the aggregate income and the aggregate subsistence level, or, to put it in another way, the average income per head *minus* the minimum of subsistence."‡ It is, however, on the question of what constitutes the minimum of subsistence, that the greatest difference of opinion is possible; for while an agreement may be possible as to what elements constitute the margin of subsistence, when it comes to a translation of these

*Cp. para 476, Report of the *Indian Taxation Enquiry Committee.*

†The estimate of average income made by the present writer in his *Trade, Tariffs and Transport in India*, and again in his *Wealth and Taxable Capacity of India* in collaboration with Mr. K. J. Kambata, differ by 44 : 74; and these differ again with the estimate of Mr. Findlay Shirras, Op. Cit. The estimate of Messrs. Wadia and Joshi agrees, it may be added, very closely with that of the present writer and his colleague Mr. Khambata.

‡Para 478 of the *Taxation Committee Report.*

elements into money-values, very few economists will be fonnd to agree. Economists, moreover, are unable to give its due importance to such a vague, but none the less effective consideration like the elasticity possible in our concrete expressions of a minimum for snbsistence. One never knows till one tries how low a human being can cut down the most elementary wants before succumbing absolntely; and when it comes to a qnestion of the minimum of subsistence for a whole community,—for an entire people like that of India,—it is altogether impossible to say how far that minimum can be cut down before such a people would cease to count in the struggle for existence. It is the ignorance of considerations like these which has led otherwise cautious economists to make such wild generalisations as that the limit of taxable capacity is the limit of squeezability.* The Taxation Committee has also pointed out another element which ought to be considered before we can safely determine the taxable capacity of any community, *viz.*, the distribution of income within that community; for, as it has been well said, the taxable capacity of a given community would differ materially according as all its citizens have equal and uniform income, and as one of them has half the wealth of all the rest put up together. The margin of superfluity in the latter case would be much greater, and hence the taxable capacity of that community would be much larger. Finally, the Committee are also aware of the reflex action of the distribntion of the tax-receipts by Government, the layout of the public expenditure, which, wisely and sympathetically made, might add very considerably to the ability of the community to bear the tax-burdens, and which, if spent injudiciously and wastefully, might act most detrimentally from this standpoint.

But in spite of this profound consideration of the main elements of the problem, the Taxation Committee proceed to examine the problem before them in a manner entirely against their own analysis. They follow the reasoning of the Economic Enquiry Committee, and consider the burden of taxation as on the several *ad hoc* classes of the population, as set forth by the latter Committee.

* Shirras, *Science of Public Finance*, p. 132.

Tax Burdens of the Town Labourer *

Taxes.	1911–14 (average).			1922–25 (average.)		
	Amount of tax collected.	Population over which it is distributed.	Incidence per head.	Amount of tax collected.	Population over which it is distributed.	Incidence per head.
	(Lakhs) Rs.	(Lakhs) Rs.	Rs. a. p.	(Lakhs) Rs.	(Lakhs) Rs.	Rs. a. p.
1. Salt	4,69	315,2	0 2 4	6,82†	318,9	0 3
2. Customs duties on necessaries, such as sugar, kerosene oil, cotton goods‡ and matches...	3,44	315,2	0 1 9	14,91	318,9	0 7 6
3. Customs duties on productive goods such as machinery and raw materials	76	315,2	0 0 5	5,45	318,9	0 2 9
4. Excise duty on kerosene oil	...	...	...	95	318,9	0 0 6
5. Excise duty on cotton goods...	53	243,9§	0 0 4	1,85	247,0§	0 1 2
6. Excise duty on intoxicants except foreign liquor...	2,26 ‖	17,1	1 4 10	3,39 ‖	18,1	1 14 0
7. Municipal taxes consumption taxes¶ ...	2,70	17,1	1 9 3	4,54**	18,1	2 8 2
Others	2,47	17,1	1 7 1	5,67**	18,1	3 2 1
Total, Imperial and Provincial (items 1–6)	...	...	1 9 8	...	...	2 13 4
Total Municipal (item 7)	...	...	3 0 4	...	...	5 10 3
Grand total	...	...	4 10 0	...	...	8 7 7
Index number of prices (average)	...	...	136 0 0	...	...	227 0 0

The total incidence per head for 1922–25 corrected with reference to price index for 1911–14 is Rs. 5–1–3.

* Cp. Report of the Indian Taxation Enquiry Committee, p. 342.

† The figure for 1922–23 has been taken as that for 1923–24 and is abnormal.

‡ Information is not available about coarser cotton goods and total has therefore been taken.

§ Population of British India alone has been taken as there are mills in Indian States.

‖ This has been estimated with reference to the proportion contributed by certain urban areas.

¶ The Municipal taxes on consumption are partly borne by the rural classes who make purchases in the town.

** The figures are for 1923–24 as figures for 1924–25 are not available.

Tax burdens of the Rural Labourer.

Taxes.	1911-14 (average.) Amount of tax collected.	Population over which it is distributed.	Incidence per head.	1922-25 (average). Amount of tax collected.	Population over which it is distributed.	Incidence per head.
	(Lakhs) Rs.	(Lakhs)	Rs. a. p.	(Lakhs) Rs.	(Lakhs) Rs.	Rs. a. p.
1. Salt	4,69	315,2	0 2 4	*6,82	318,9	0 3 5
2. Customs duties on necessaries such as sugar, kerosene oil, cotton goods † and matches	3,44	315,2	0 1 9	14,91	318,9	0 7 6
3. Customs duties on productive goods such as machinery and raw materials	76	315,2	0 0 5	5,45	318,9	0 2 9
4. Excise duty on kerosene oil	...	...	...	95	318,9	0 0 6
5. Excise duty on cotton goods	53	243,9‡	0 0 4	1,85	247,0‡	0 1 2
6. Excise duty on intoxicants except foreign liquor	9,68§	226,8 ‖	0 6 10	13,99§	228,9 ‖	0 9 9
7. Capitation tax	98	226,8 ‖	0 0 8	1,03	228,9 ‖	0 0 9
8. Chowkidari tax... ...	1,80	226,8 ‖	0 1 1	1,50	228,9 ‖	0 1 1
Total ...	...	...	0 13 5	...	...	1 10 11
Index number of prices (average)	...	...	136 0 0	...	...	227 0 0

The total incidence per head for 1922-25 corrected with reference to price index for 1911-14 is Rs. 1-0-2.

The reference of the Committee clause (*a*) asks them to examine the manner in which the burden of taxation is distributed among "the different classes of the population." What precisely was intended by the framers of this reference? The differentiation of classes of a people for the purpose of ascertaining the distribution of the tax-burdens ought to be on the grounds of economic differences of wealth,—whether measured by income or by capital. The classification adopted by the Committee is, however, not determined by any such considerations. There is not a trace of real economic differentiation between several of the classes there considered to be distinct. The remarks relating to the incidence of tax-burdens on the classes selected arbitrarily are, therefore, hardly of the utility to the student and even to the minister

* The figure for 1922-23 has been taken as that for 1923-24 is abnormal.

† Information is not available about coarser cotton goods and the total has therefore been taken.

‡ Population of British India alone has been taken as there are mills in Indian States.

§ This has been estimated with reference to the proportion actually contributed by the rural area.

‖ Rural population of British India alone has been taken.

of Indian finance that might be desired. The Committee are aware that the classification put forward by them is not "exhaustive,"* It is not logical, since several classes will necessarily overlap, being mutually indistinguishable; nor reliable, as the consideration of the burdens is complicated by a factor, which the Committee appear to have ignored. Take the case of the taxes on traders and merchants, and contrast them with the taxes on labourers,—urban or rural. While on the Committee's showing, the burden on the labouring classes has increased, between 1911–14 and 1922-25 from Rs. 4–10–0 to Rs. 8–7–7, which, corrected by reference to the price index given in the same connection, implies a net increase of 19 per cent. —(a most faulty and objectionable method of computation, since the proper comparison is not so much with prices as with wages, and the Committee have made no reference to wage-movements whatsoever; and, besides, the unweighted averaging adopted in the tabulation on p. 342 is fundamentally objectionable)—the burden,—increased or not, on the trading classes of all ranks is not even attempted to be estimated in anything like the concrete form in which it was necessary, by parity of reasoning, to estimate. Even so, and ignoring the inherent defect in the fundamentally erroneous method adopted for computation of the burden, the main objection to the Committee's finding is that, whereas in the case of the labouring classes the taxes paid by them are direct as well as indirect, and that in either case the burden is fully borne without possibility of shifting or evading by these classes; in the case of the trading classes, except in so far as they come within the category of income-tax-payers (even there there are means of evasion, which the *pundits* of the Revenue Board have not yet discovered or are unable to expose), the tax-burdens are mostly capable not only of being transferred to other shoulders in ultimate incidence from those which originally bore those burdens, but even to utilise these initial burdens as a means of additional profits for the first-tax-payers, at the expense of the eventual bearers of these burdens. The phenomenon of a constant and considerable difference between wholesale and retail prices is too well-known to be unknown to the experts who formed the Taxation Enquiry Committee. That difference tends to grow in proportion as the articles in question are taxed indirectly. And the greater the tax, the greater the chance for a variation between wholesale and retail prices, and the larger the opportunity for exploitation of the final consumers of the taxed articles,—the labouring classes,—for the combined but concealed benefit of the state and the intermediaries. The Committee having ignored the effects of this common phenomenon, the value of their findings must suffer in proportion. Adequate consideration, moreover, is not given to the real surplus for taxation, the real margin between the minimum of subsistence and the total income of the tax-payer, so that the exact incidence of the burden is necessarily not ascertained.

IV.—The Real Incidence of Taxation in India

For these reasons, then, it is impossible to feel satisfied with such light as the Indian Taxation Enquiry Committee have thrown on this pro-

* Cp. Tables annexed, Taxation Report pp. 342–4.

blem of the real incidence of taxation in India. In another work* the present writer has endeavoured more accurately to determine the real pressure or burden of the public revenues on the peoples of India. Starting with a detailed consideration of the exact annual income of the people of India, which, at the price-level of 1921-22, was found to aggregate Rs. 2,364 crores, or Rs. 74 per head per annum, the work proceeds to estimate and allow for the principal liabilities on this gross income of the people of India. The deductions, under a variety of heads, both political as well as economic, which are in the nature of a first and irrefusable charge upon this income, are estimated to aggregate 220 crores in round figures, which leave a net income for Indians to live on of some 67 rupees per head per annum. Next is considered the minimum of subsistence by a combination of the "human needs of labour" with the available resources to satisfy those needs and wants; and, on the assumption, by no means nnsupportable on scientific gronnds, that the barest subsistence of a human being would reqnire a ration of cereals of 2 lbs. per head of adult male, with proportionate reductions in the case of women and children, the conclusion is reached that there is a deficit, on the average income, and for the barest subsistence, of Rs. 23 per head per annum.

> "The consequence is obvious and unavoidable. The Indian people are underfed. Either one in every three individuals must go hungry; or,—what is much more easy, insidious and injurious,—every one must cut one out of every three meals necessary to him. This inevitably becomes the common practice, and the consequence is the progressive deterioration in physique and energy that renders additional production with a view to make up for the deficit increasingly more and more difficult."†

After considering, next, the real burden of public revenues and the exact benefit of the central and local expenditure of the several governments in India, as also the several classes of the community differentiated *inter se* on the exclusively economic ground of their respective wealth, the results obtained may be summarised thus :—

					crores.
There are	6,000	individuals, with average annual income of Rs.	1,00,000	absorbing	60
" "	5,00,000	" " " " " " "	5,000	"	250
" "	25,00,000	" " " " " " "	1,000	"	250
" "	3,50,00,000	" " " " " " "	200	"	700

The remainder have among them an average income of Rs. 50 and absorb 800 crores of the annual national wealth among them. With their dependents, four per each, these make up the total population of India, which thus has really no middle class, but only two classes, a very small class of very rich individuals, enjoying among them more than 70 per cent. of the total wealth of the country,—half of which being in the hands of only 5% of the total population, including workers or income-receivers as well as the dependents,—while the rest of the country, over 65%, has among them something less than a third of the total wealth of the country.

* "*Wealth and Taxable Capacity of India*, by Shah and Khambata,

† Op. Cit. p. 252.

On this stratification of society in India, considered in its economic aspect, examine next the real distribution of the tax-burdens among these.* The main sources of public revenue in British India, according to the revised estimates of 1923–24, were as shown in the marginal table. Of these, opium, tributes from Indian States, mint, and interest receipts, together with the civil and military departmental receipts, may be excluded, as being either not taxation proper, or not falling on the Indian people. The receipts from public enterprise like railways and post office have, in this work, been considered to be in the nature of taxation; but if we would exclude any part of these from consideration here, we must take in part of the deparmental fees which are really taxation disguised, *e.g.*, education fees; and, of course, the local taxation of municipalities and district boards.

Head of Revenue.	Amount in rupees.
Customs	40,41,53,000
Land Revenue ...	36,07,61,000
Income Tax ...	19,21,11,000
Excise	19,22,41,700
Salt	8,70,27,700
Stamps	12,81,38,000
Forests	5,84,38,000
Irrigation... ...	5,80,49,000
Registration ...	1,22,42,000
Railways	94,22,02,000
Posts	10,35,51,000
Opium	4,30,64,000
Tributes	87,26,000
Mint, etc. ...	3,07,68,000
Civil and Military Departmental Receipts... ...	8,23,00,000
Total ...	2,73,61,97,400

Add local taxation of municipalities and district boards of about Rs. 25 crores (Cp. p. 260 op. cit.), so that the total tax-burden is, in round terms, Rs. 300 crores in British India.

Let us for convenience in reasoning take the total tax-burdens in British India to be Rs. 270 crores, or Rs. 11¼ per head of population on an average, and in round terms. Let us, next, take each of the main heads of revenue, and consider their incidence. The total customs revenue of 45 crores (Budget Estimates, though the revised figure for the same year showed 40 crores as noted in the table) was made up of: Rs. 36·57 crores import duties, 5·40 crores export duties, 1·88 cotton excise duties, 1·70 motor excise, etc., and the remainder from miscellaneous sources. Of these, the export duties may be left out as falling not on India; while the excise on petroleum may be taken to fall exclusively on the richer class; though in so far as the excise duty on petroleum works out as a tax on transportation of goods, and is capable of being recovered by the richer classes who pay it in the first instance, the same may be considered to be falling, in part at least, on the poorer section of the community. The kerosene duty must, of course, be regarded as falling wholly on the poorer people. In the import schedule, the following may be considered to be borne by the richer strata, *viz.* :—

	Rs.
Motor cars and other luxury goods taxed at 30% ...	3·02 crores.
Liquors, wines, beer, etc., charged special specific rates	2·52 ,,
Machinery, metals and railway plant	3·83 ,,
Articles of food, drink and raw material	2·33 ,,
Total ...	11·70 ,,

* What follows has been summarised from the *Wealth and Taxable Capacity of India* by Shah and Khambatta, pages 289–91.

This accounts for a total of close on 18 crores out of the customs revenue. The rest may be taken to be divided in the proportion of 3 : 1 as between the poorer and the richer classes, *i.e.*, Rs. 21 crores by the poorer and Rs. 7 crores by the richer. Altogether, then, of the customs revenue, the rich section pays 19½ crores, the poor 21 crores, and non-Indians 5½ crores.

The land revenue and irrigation dues total 42 crores in round figures. Distributing this charge between zamindari lands, whether permanently settled or temporarily, and ryotwari lands, in the proportion of the respective area under these forms of land tenures, we find the zamindars pay some 17½ crores, while the ryots pay about 14 crores. Land not included in the above area figures may be taken to be also in the charge of the smaller ryot, who may therefore be taken to bear the rest of the land revenue as well. Irrigation dues similarly distributed between the zamindari and the ryotwari lands, we find the poorer section bearing 21½ crores of land and irrigation charges, and the richer section nearly 20½ crores.

Income tax receipts are paid, of course, by the richer section, but the bulk of the excise revenue is borne by the poorer section ; while the salt revenue may be divided between the two in the proportion of 7½ : 1¼ between the poorer and the richer elements. Of the forests and registration revenue, making a combined total of 7'06 crores, an equitable distribution suggests 5 crores to be borne by the poorer element, and 2 by the more fortunate. Stamps may be divided in almost equal proportions between the two classes irrespective of their numbers.

Of the railway earnings, passenger traffic accounted for 37'59 crores, and goods 57'87. The first and second class passengers combined brought in 5.39 crores while the third alone gave 32'20 crores. Goods charge, though in reality borne in the bulk by the poor, may be split up equally to err on the safe side. Postal receipts, similarly, may be split up in equal proportions between the rich and the poor classes, but the local revenue burden must be taken to be borne almost wholly by the very poorest section of the community.

Summing up these, we get the net result somewhat like the following :—

Head of Revenue.	Amount of tax-burden borne by the rich strata. Rs.		Amount of tax-burden borne by the poor strata. Rs.	
Customs	20	crores	21	crores.
Land revenue and irrigation	20½	,,	21½	,,
Income tax	20	,,	...	
Excise	...		20	,,
Salt	1¼	,,	7½	,,
Forests and registration ...	2	,,	5	,,
Stamps	6½	,,	6½	,,
Railways	33	,,	60	,,
Post Office	5	,,	5½	,,
Municipal taxes	3	,,	10	,,
District Board taxes ...	...		10	,,
Total ...	111½	,,	167	,,

In terms of the mere number of the citizens embraced by each of these classes, it might seem that the stronger section bears the greater burden. But when you consider this in conjunction with the wealth of these classes respectively, it cannot but be evident, that economically the weaker and less able section bears pecuniarily the largest proportion of the tax-burdens in India. Allowing for some *quid pro quo* in some of

the above items, we may yet say that while the richer class pays 100 crores in revenue, the poorer pays 150; *i.e.*, in terms of the wealth deduction, while from the average family income of Rs. 1,000 per annum and over, the tax deduction aggregates 100 crores out of a total of 600 crores of wealth enjoyed by less than a twentififth of the population, the remainder of 150 crores is deducted from a total wealth of about 1,000 or 1,200 crores enjoyed by the 96% of the remaining population. This distribution can scarcely be considered to be either economical or equitable. If we further add the consideration of the retnrn obtained by these classes, the balance of advantage seems to lie almost wholly with the upper layer of society; for whether we think of the expenditure on defence or even on education and other local services, the very poorest in India are incapable of taking any advantage whatsoever from the public activities of the state and its representatives in India.

CHAPTER XIII

Other Sources of Revenues in India

I.—The Importance of the question :—The need for Additional Revenues

After this brief examination of the existing sources of public revenue in India, we may now turn to the consideration of possible additions to these revenues in case of emergency. The problem, however, demands at the very outset a consideration of the question as to what, if any, is the need for additional revenues in India at the present time. Since at any rate the commencement of this century, Indian finance has on the whole shown a creditable record, in which, despite some mistakes of policy or misunderstanding of ideals, the two sides of the national balance sheet have fairly generally balanced, leaving, if anything, a favourable margin on the whole.* Apart from the war period and its necessary additions to the tax burdens, there was a marked tendency in the earlier years to a reduction in taxation † in consequence of the disappearance of the main dangers of the Indian financial system, which were so conspicuous in the last quarter of the preceding century. We have now very little to fear from the bogey of famine, not because we have yet succeeded in abolishing famines in India, but because, with the provision already made, famines as such have ceased to command that attention or excite that apprehension which they used to do in the last century. Famine expenditure is still a considerable drain on the Indian exchequer, all the more serious because it is so uncertain; but thanks

* Since the commencement of this century there have been only four years of deficit and sixty years of surplus. According to the Public Accounts the total surplus during the period amounted to £58,466,365 while the total deficit amounted to £11,062,241. The ordinary deficit during the war years is also included in these figures. Since 1918-19 the net deficit has been as follows :—

		Rs.			Rs.
1918-19	...	5,73,06,136	1921-22	...	36,38,23,520
1919-20	...	23,65,28,825	1922-23	...	16,51,29,676
1920-21	...	26,00,85,276			
					108,28,73,433

In 1923-24 there was a surplus of Rs. 5,14,90,487 and in 1924-25 of Rs. 8,56,84,057. These figures relate to the central and provincial revenues of India combined. The total surplus since the commencement of this century is Rs. 101·41 crores and the total deficit Rs. 124·89 crores, or a net deficit of Rs. 23·55 crores. The surplus, we may add, includes extraordinary receipts, like the sale proceeds of captured enemy ships credited in 1924, while the deficit does not include extraordinary charges, which are all met from borrowing

† The conspicuous reductions in taxation have taken the form of (*a*) reduction of salt duty by stages from Rs. 2/2 a maund to Re. 1 a maund, (*b*) the raising of the limit of the income exempted from the Income-Tax, (*c*) the discontinuation of Provincial Rates (*d*) and the decline in the Opium Revenue.

to the scheme of famine insurance, and the measures taken in consequence; thanks to the extension of irrigation works, and, to a smaller extent, of railways; neither the loss of life nor the other evils of the now ancient famine history of India need be dreaded in all their intensity. The fall in silver, again, which was such a portentous phenomenon in the closing years of the last century, has not only been arrested, but at the present moment is causing considerable gain to the Government of India in their Home Charges.* Provision, therefore, for additional revenues to meet possible loss in Exchange is no longer needed. The uncertainties of opium revenue, too, need not disturb the present day finance minister, as that source of public income has already gone, and the revenues have now been adjusted to meet the loss. The normal growth of existing sources of revenues seems to be quite sufficient to meet all possible demands on the public purse, assuming, of course, that in the general principles of public expenditure, the accepted ideas are not changed.†

*This gain seems to be a temporary one, unless it proves that the recommendations of the latest Currency Commission are adopted and carried out successfully, and the rupee definitely fixed at 24*d*. gold value. If it be believed that the present appreciation in the gold value of the rupee is caused chiefly by war conditions, it would be yet premature to say that the new basis would prove any more permanent than those that have preceded. This phase of the policy of the Government of India is at present exciting the bitterest criticism, as, indeed, has always been the case as regards the currency policy of the Government of India for now nearly half a century. Since the above was written the 2/- basis has again broken down, and the rupee has fallen lower (March 1921) than at any time since 1918. The dissipation of their sterling resources by the Government in the mad haste to give the rupee a 2/-gold basis in 1920 forbids them now (March 1921) to adopt the only measure which can restore exchange even to the £1=Rs. 15 level.

* * * * * * * *

In the interval since the first edition of this work was published, yet another Royal Commission has considered the question of the Indian currency system (1925-26), and recommended the establishment of the Gold Bullion Standard, with the exchange value of the rupee fixed by law at 18*d*. gold. One of the Indian members of the Hilton-Young Commission has, while agreeing to and accepting *all* the other recommendations and findings of his colleagues, joined issue on this question of the ratio in exchange of the rupee; and, at the moment of writing, another acrimonious campaign is raging in India on this eternal question of currency reform. Putting aside the inevitable element of personal equation and *amour propre* in all such matters, one cannot help feeling, from a strictly scientific point of view of currency reform, that to those that accept the correctness of the Gold Bullion Standard, even to such absurd heights as the demonetisation of the English sovereign in India, and the inconvertibility of the Indian paper currency, the fight about a mere matter of the ratio is, to say the least and in the most charitable terms, much ado about nothing. Of course an artificially high exchange is bound to be harmful to the exporting interest, particularly in such a country as India; but the real, permanent, satisfactory solution of the Indian currency problem will never be attained by manipulation of the exchange ratio upwards or downwards. What India needs is, in my opinion, an honest gold standard of the orthodox type, which, if established, will render the question of the rupee ratio utterly insignificant, at least so far as the Foreign Exchanges are concerned; while for domestic purposes, and during the transitional period, any ratio may be fixed which is considered by competent authority to be most suitable to the true economic interests of India. The 16*d*. ratio is certainly sanctified by time and justified by economic considerations; but its fixation must not be suffered to be made the be-all and end-all of the Indian currency agitation.

† We have deliberately left out the military factor. Wars are not yet quite banished from human history, and the post war budgets of India give no indication of any changed attitude in this matter in quarters that count. Mesopotamia and Afghanistan are fraught with immense possibilities for mischief at the hands of the Indian jingoes. But still, if the League of Nations grows in public esteem to be something more than a mere registry office for the Big Four, we believe the war fever will subside even in India, though it would take time—perhaps longer than elsewhere.

The investigation into this problem of additional sources of revenues, then, seems, at first sight, to be a little academic at best. We cannot, of course, set about such an investigation merely on the theoretical question whether or not India is comparatively speaking lightly or heavily taxed. The question* has had its importance at a time when the ingenuity of the Indian Finance Department was much exercised to make good the increasing loss caused by the continued fall in the value of silver, combined with a war scare and recurring famines. But to-day, even supposing that India is relatively lightly taxed, there is hardly any financier of standing or reputation, who, on that ground alone, would suggest a serious investigation into this question.

There are, however, new forces and reasons now at work demanding serious searchings after new sources of revenues, which are generically different from the older forces working in the same direction. Formerly the search for new or extra revenue was a mere matter of squaring a given deficit: Even as late as 1923-24, when the continued deficit frightened the then new Finance Minister, Sir Basil Blackett, to his wits' end, and when the additions to the rates and fares on the railways and in the post office were, after trial, found to be inadequate to meet the strain of the deficit, and even inclined to weaken absolutely the revenue source, the doubling of the salt tax was supposed to be justified for the immediate need of abolishing the deficit. But the new forces of nation-building and social reform, whose full force the orthodox financier does not quite realise even yet, make an increasing demand upon the exchequer in a double direction. Even if we have not as yet definitely accepted, we must shortly accept even in India the taxing power of the State as a great weapon of social reform and industrial assistance. We look to the State to recast our entire education system, and increase its expenditure proportionately; we demand from the State substantial aid in combating disease and poverty, in fighting the chronic indebtedness of the Indian agriculturist and overcoming the apathy or ignorance or inexperience of the Indian trading and industrial classes. We expect demonstration factories and experimental farms at public expenses. We seek a better, healthier, more equitable distribution of the national wealth by means of wider extension of public or collective enterprise; and until the ideal is realised by means of tax adjustments, a more equal measure of sacrifice for the public needs. We try to utilise the powers of taxation in fighting evil habits or customs which are injurious to the individual, and through him to the race or the community, until we have so far educated public conscience as to make at least the majority recognise the necessity of absolute prohibition of deleterious consump-

† Comparisons about the relative heaviness of the tax burdens are, as a rule, misleading, if not, futile. If we divide the total revenues of India by its total population, we would get an astonishingly low figure of average tax burdens borne by each individual. To get a more accurate idea we must ascertain the relative income or ability to bear the tax, which in India is very low, as also the figure of the taxes actually falling on each individual. Even if we can make accurate calculations on these points, it would be difficult to ascertain the real extent of the sacrifice involved in the payment of the taxes, and consequently such comparisons would serve no useful purpose in practice. But see the preceding chapter added in this edition.

tion, or complete abolition of harmful customs. Under the circumstances, investigation into the problem of new taxes, or wider additional sources of public revenues, has a vital importance on the future wealth and happiness of the community as such. Certain sources of revenue, *e.g.* the excise revenue, are condemned in toto, and enlightened opinion is looking forward to the day when the entire income from such objectionable sources is done away with. The total depletion of revenue on account of such factors is difficult to estimate exactly; but assuming the abolition of the excise revenue and the reduction, if not the total negation, of the salt revenue; assuming further the redistribution and re-formation of the land revenue and irrigation dues, the total sacrifice may well amount to close upon 40 crores per annum, in the central and provincial budgets combined. On the other hand, items of national reconstruction, like improved, more extensive, more liberal systems of public instruction, of sanitation and the care of the public health, of industrial development by intensive attention to every promising but unfamiliar industry, may result in an additional strain on the exchequer which may well aggregate another 40 crores. To meet this, the only possible retrenchment is in connection with the expenditure on defence, and possibly, though doubtfully, on the maintenance of the public peace in the country. A regrading of the salaries and allowances of the public servants in all grades and departments may also result in some substantial economies. But the combined economy through such means will probably not exceed 30 crores, if by such economies we would not endanger the efficiency of the country's administration. The need for extra revenue, therefore, is indispensable if the rebuilding of the Indian nation is not to be delayed a single day longer than absolutely unavoidable.

Yet another influence tending towards a greater strain on the revenue resources of the central Government in India is due to the growing demand of the Indian states to a share in those revenues which are paid, in part at least, by the subjects of these states. The Government of India enjoys almost exclusively such sources of substantial revenue as the salt duty and the customs duties proceeds; and yet the incidence of these taxes embraces the subjects of the Indian states in an equal degree with those of British India. In fact the States have contended, and not without a show of reason, that the full benefit of a policy of industrial protection to new industries by means of a scientific manipulation of the customs tariff goes mainly to the inhabitants of British India; while the burden of such a policy represented by the increase in price, due to such measures, of the taxed commodities falls equally upon the States as well as upon the British Indian citizens. They hold that the yield of the taxes must go to that government whose subjects bear the burden of such taxes. To this reasoning the Government of India have no reply, unless we consider the plea of the exclusive burden of the expenditure for defence and development to constitute sufficient answer to these allegations. But even if accepted, such a reasoning would lead to a wholesale, radical reconsideration of the entirety of financial arrangements

in India, with a view to a much more even and equitable distribution of the resources as well as the obligations of the state in India between the various constituent governments of the states as well as the provinces of India, together with the central and supreme Government in India. This is a matter discussed elsewhere in greater detail in this work. But the remark may be added even here that it by no means precludes the possibility of still more revenue being needed even if the main task of equitable distribution is satisfactorily accomplished.

It is, indeed, the mark of prudent financing to be prepared for contingencies, and to provide some untapped reserves. In the old days the Finance Minister could always fall back on the income tax, on the license tax, or the salt duty, to meet a sudden emergency, which it was considered unadvisable to finance by borrowing. But at the present moment we are not considering any of these as exceptional sources of public revenues to be utilised only in the event of serious necessity. Though, as the war experience has shown, there is room for increase in the rates, and consequently in the yield of these taxes, it is nevertheless true to say that they have become permanent features of our tax system, and, as such, cannot be considered in the light of a reserve. Forty years ago when the Strachey Brothers published their work on Indian Finances and Public Works, they could well urge that as there were no elastic sources of revenue in the Indian financial system, the question of additional sources of revenue had more than a purely academic importance, though even then they were optimistic enough to believe that the ordinary revenues were sufficient for all ordinary demands upon the exchequer. To-day it would not be quite fair to say that the Indian budget gives cause for apprehension owing to the absence of any productive sources of revenue, or owing to the absence of elasticity in the revenue system as a whole.

II.—The Possible Sources of New Taxation

If we compare the Indian tax system with any European or American system of taxation, with a view to find out what sources of taxation are yet untried in this country, we would discover many which are quite unknown, and have, therefore, been pronounced unsuitable for this country. It is true the difference in conditions governing Indian society from those governing European or American societies explain to a large extent the absence of those branches of the tax system which in other countries are so productive. As a rule, however, the assumption is quite empirical that because a tax is unknown, it would be unsuitable; or more plausibly, because the conditions of orthodox Indian society rendered the experiment undesirable from a political point of view 50 years ago, that, therefore, the same apprehensions should be entertained even if the Indian society has admittedly changed in the meanwhile. Given the necessity or justification for an investigation into the possible additional sources of revenue as above, we shall proceed first to discover new taxes, those being the obvious orthodox

methods of raising public revenues, and think of other alternative or concurrent sources of income without assigning undue weight to such hypothetical considerations of suitability as may have had their justification in the past, but do not, on reflection, seem to have the same justification to-day.

III.—New Taxes already proposed in the past

In the Strachey Brothers' work, already referred to, taxes are mentioned which, in the opinion of the authors, might well be resorted to in financial emergencies, without the burden proving appreciably hard, or without their incidence disturbing the national industry. Some of their suggestions, like the one relating to income tax, have no great importance to-day, as those suggestions have passed the stage of being considered extraordinary sources, and are embodied as permanent features of our tax system. On the other hand, other suggestions, like the one relating to land rates, must now be approached from a different standpoint altogether. As the authors anticipated, educated India* now considers the permanent settlement of Bengal, and the consequent inequality in the burdens of taxation in the different provinces, as an institution which stands in need of radical modification in the interests of the community at large. But the most appropriate mode of modifying the permanent settlement would be rather by means of an extension of the income tax to these incomes than by any system of land rates, as proposed by the Stracheys. For it is not inconceivable that rates on land may be actually shifted on to the tenant, and the zamindar might still escape the burden of the tax. Such rates, moreover, would have to be necessarily made moderate, while the tax on incomes may be made to follow the exigencies of the moment more easily. If we assume that the untaxed income of the richer Bengal zamindars amounts to Rs. 20 crores a year† which, as much by its size as by the ease with which it is acquired, might fitly be taxed at an average rate of 25%, the total increase in the income tax would from this source alone amount to Rs. 5 crores. And if that is not quite enough to secure equality of sacrifice, a succession duty may be imposed on the same class of people to add another Rs. 2½ crores a year to the exchequer. There are landlords also in the United Provinces, in Madras, the Central Provinces and in the Punjab; and though their assessment was

* "The time will inevitably come when the intelligent portion of the community in the rest of India will appreciate the fact that, in consequence of an arrangement ignorantly made nearly a century ago, the richest class in the richest province of the empire bears far less than its just share of public burdens; that the other provinces, all of them comparatively poor in natural resources, are therefore paying several millions a year of taxation from which they could otherwise be exempt, and that what they lose from this arrangement the people of Bengal do not gain. When this is understood and admitted, except by the zamindars in Bengal itself, the application of the needful remedies would be an easier matter than it seems now." (Op. Cit. p. 358). We must add, in fairness to the spokesmen of the zamindar class, that the best among them have begun to perceive the unfairness of their advantages. The proposal to include agricultural income in the increased income tax during the war was, it is curious to observe, defeated mainly by the unfettered votes of the official members of the Imperial Council.

† Strachey estimated this yield from land rates at £5 millions. At the present time it is estimated that the total rental of the Bengal landlords is four times the land revenue of that province. Taking the Bengal land revenue at Rs. 4·2 crores for Bengal, Bihar and Orissa, the total rent ought to be Rs. 18 crores. The estimate above is, therefore, not much above the mark.

not originally quite so liberal as that of the Bengal landlords, they too have escaped their just burdens of the national requirements. Altogether it would be a modest estimate to say that the income tax, coupled with a succession duty, affecting great landed property, with a rental exceeding Rs. 5,000 a year and at a rate varying from 5% to 33%, ought to yield at least Rs. 15 crores more to the revenue without in the slightest degree proving burdensome.

The mention of succession duty suggests another tax that is conspicuous by its absence in the Indian financial system. But the conditions of Indian society in this respect are fundamentally dissimilar to those of society in Europe. The greater proportion of the taxable property under such a tax would of necessity be paid in this country by the agriculturists; and as the agricultural classes admittedly are bearing their share and more of the national burdens, it is alleged that succession duties have no future in India. * The bulk of the cultivators or small land-owners would no doubt have to be excluded from the operation of a succession duty; but there is no reason to exempt the larger landlords, who hitherto have not taken anything like their fair share of the country's burdens. In their case, moreover, the administrative difficulty occasioned by the absence of any machinery for the collection of such a tax is insignificant, as the law and practice of succession is analogous to that of England, and a similar machinery can be easily instituted to collect this item of revenue. As regards personal property, it is true that Indians have not, speaking very broadly, yet acquired the economic habits of investing all surplus wealth, and thereby rendering the transition from the dead to the living an easy stage for taxation. † But within the last twenty years, conversion of personal property in easily realisable and earning forms has made appreciable advance; and certainly, in the great towns, the taxation of personal property by means of a succession duty is now-a-days much more easy than was the case forty years ago. It is difficult to say what exactly is the amount thus held in the form of stocks, shares, scrip, bond and negotiable securities, mortgages etc. Judging from the return of the Registrars of joint stock companies, and of the Finance Department as regards the National Debt, it would not be much under 500 crores in India itself. On a rough calculation it may be assumed that about a tenth changes hands every year, which may be brought under taxation by means of succession duties, and be made to yield about 5 crores. There could be no great objection to the succession duty, if very small properties are exempted, say those under 5,000 rupees value. There is, however, the plea, urged long ago by Sir James Stephen, that a succession duty in India would operate most inequitably as,

* Cp, The *Indian Taxation Enquiry Committee's Report*, paras 257-271.

† It is, of course, commonly alleged that Indian capital seeks no profitable investment and is hoarded for the most part. If, however, we extend the meaning of the term investment to agricultural loans, and if we had any reliable records of such loans, the question of succession duty would lose much of the present difficulties connected with it.

under the system of joint family and joint owner-ship in the family property, the demise of the head of the family in most instances would be an occasion, not of additional strength to the survivors, but rather of weakness owing to the earning member of the family being cut off, and the consequent difficulty of making the property pay. As far as this argument affects the case of small proprietors, it is unanswerable. The co-proprietors gain, on the death of one of them, to the extent of the personal requirements of the deceased; but they lose to the extent of his earnings which are frequently more than his own expenses. The gain is frequently much less than the loss. But if we exempt, as we must, very small properties from the operation of such a tax ; if we set up a resonably liberal system of refunds for excessive collections, it is not impossible to believe that the succession duties might, even in India, afford an easy, convenient, handsome source of public revenues.

Another very productive source of revenue would be found in the consumption of **tobacco.** It is certainly not a necessary of life, and is yet consumed by very large numbers of population in India. It is certainly not a beneficial habit, and the taxing authority may have similar justification, as in the case of the excise revenue from the consumption of the intoxicating liquors and drugs, for attempting to obtain a considerable revenue from this not quite desirable consumption. Tobacco monoply has already proved very lucrative in France and Austria-Hungary ; and there is no reason to believe that it would be otherwise in India. True, the cultivation of tobacco is scattered in the different provinces so much that the task of supervision with a view to prevent evasion of the monopoly is likely to prove arduous and possibly expensive.* But the experience of the provincial agricultural departments would, after a few years, suffice to obviate this difficulty ; and, in course of time, a machinery would be evolved which would prevent the infringement of the monopoly, at the same time that it would collect the revenue. Possibly the revenue would have to be collected, following the opium model, in two steps ; a license fee in the 'first instance for the cultivation of the tobacco, subject always to the understanding that all tobacco grown shall be sold at prescribed rates to the Government exclusively, Government undertaking to make advances during cultivation from time to time as

* Summing up their findings on this question of taxing tobacco in India, the Taxation Committee write :

"Tobacco is universally recognised as a suitable object of taxation (193). Of the plans suggested, a government monopoly in India would be too vast an undertaking to be considered. An acreage duty presents considerable administrative difficulties and would probably excite resentment, and it is consequently not recommended (195). A local excise on all production would be impracticable, but the increases in the tariff make one desirable in the case of cigarettes and pipe tobacco made in factories (199–200).........The Committee recommend an excise duty on locally made cigarettes and pipe tobacco, accompanied by an indirect excise through a system of licensing in the case of country tobacco." The Committee, however, seem to have been influenced unduly by their general prejudice against public or collective enterprize in rejecting the idea of a public monopoly. They seem to have overlooked the lessons of the opium and the forest monopoly, not to mention railways and post office. Like other excise duties, tobacco excise would be most productive, yielding, at 8 annas per head per annum, about 12 crores.

required. The crude tobacco may be manufactured in a central state factory, and a monopoly price might be fixed by the Government for the vend of the cigars and cigarettes at post offices or other public agencies. To make the monoploy effective, the import duty on foreign cigars and cigarettes and tobacco in other forms would have to be raised proportionately, so that the total revenue would probably be something like 10 to 15 crores from all such sources combined. *

These three taxes must be introduced in our tax system, as much because without such taxes the incidence of burdens is grievously unequal, as well as because if the suggestions here made for the expansion of the activities of the State are adopted, the needs of the State will not be satisfied unless some such sufficient addition is made. They represent the minimum, which, according to our calculations, will be needed by the Government of India when it is actuated by a truly Indian national sentiment, and undertakes a programme of national development which has so far been woefully neglected. There are other taxes, which, perhaps, would not be supported on the ground so much of the needs of the State, as rather of the effects of the tax in discouraging or putting an end to some harmful social custom. Thus it is a notorious fact that much of the indebtedness of the Indian peasant and artisan springs from injudiciously heavy expenditure on ceremonial occasions like marriage or funerals. † If, by a system of registration fees, a fairly heavy tax on the expenditure attending a marriage ceremony were levied, there is reason to believe that the present wasteful expenditure will be considerably reduced. To be effective, the tax will have to be graduated on the double principle of the scale of expenditure, as well as the age of the parties. This latter is an ideal of social reform which will be perhaps more easily effected by means of taxation than by an amount of preaching. The long established custom of injuriously early marriages among the Hindus as well as the Mahomedans in India would receive an effective check, if a proportionately heavy tax is imposed where either of the marrying parties is under say ten years of age, the tax being reduced with the addition of every year to the age of the parties till it disppears alto-

* Strachey estimated a tobacco monopoly revenue at £4 millions. Combined with license fees and customs duties, it might to-day be reasonably estimated even at Rs. 15 crores. The objections as regards the uncertainties of the yield of crude tobacco owing to differences in seasons, as also the objections as regards the differences in quality and the consequent difficulties in prices of crude material, have no importance, beyond causing some administrative difficulty. By differentiating in the prices of the finished article, and establishing a reserve against unfavourable seasons, these difficulties can be easily obviated. The tobacco revenue, by its very nature, must necessarily go to the provinces. Interprovincial arrangements must be made to secure uniformity of the tax. The import duty must be raised much higher than in 1921. Some understanding or agreement will also have to be arrived at with the Indian States to prevent smuggling or tax-evasion. Altogether the administrative difficulties, though formidable, are not insurmountable; and the yield would be considerable enough to counterbalance these difficulties.

† It is a curious testimony to the similarity of human nature that even in England the poorest people make the largest proportional provision for the funeral expenses, as evidenced by the experience of the provident societies.

gether when the parties are over fifteen. There are nearly five million marriages a year. A flat rate of Rs. 5 of license or registration fee for every marriage, and a graduated tax according to expenditure, ought to bring into the exchequer about 5 crores of rupees. There is, for the present at least, no danger of the tax acting as a deterrent to the celebration of nuptials in India and the promotion of irregular unions, since the very largest majority of the Indian people regard marriage as a sacrament, which will not be avoided for the sake of a small tax. To the social reformer the tax would in all probability be welcome, though it is probable that the tax might not command the same respect with the majority. As the reform of the institution of marriage is extremely desirable, and the prevention of wasteful expenditure equally to be wished for, the tax may be advocated, even though it should in the long run involve a certain measure of unpopularity. To an Indian Government constituted differently from the present one, and resting on the support of the people, such social experiments would not seem hazardous merely on the political danger of unpopularity, though, of course, the Ministers deriving their power from a majority of votes may not feel sufficiently bold to venture on such steps. It would be disastrous for India if the spread of representative institutions spells a stop to social reform by legislation. We prefer, however, to believe the leadership in India would be as much the result of personal magnetism of the leader as in any other countries, and that the education of the public conscience by such leaders would make these experiments much more easy than they seem to-day after sixty years of the complete *laissez-faire* in this respect. In any event this would not be a tax on which it would be quite safe to rely as a permanent productive feature of the budget, except in so far as it takes the form of a small registration fee, and then it would just suffice to pay the expenses of the department. In the earlier years, however, it may yield very substantial sums, if the governing classes would have the boldness to adopt such measures.

Other taxes besides these may be discovered by a diligent search and may be imposed according to the financial necessities of the moment. Of varying degrees of productivity, we might mention a tax on houses, a tax on motor cars, carriages or other vehicles; a tax on horses, servants and other means of display, rather than necessity; a tax on betel leaf and areca nuts. With the exception, perhaps, of the last, these are all taxes likely to be more suitably managed by local bodies than by the central or even provincial governments. In view of the suggestion that local bodies should be encouraged to extend their sphere of activities by undertaking productive public works within their means, such as light railways or navigation canals, or other more suitable local industries, such additions to the local purse cannot but prove welcome. In large cities like Bombay or Calcutta, the house tax and the vehicles tax may quite possibly be made to yield substantial sums, if only to set off the impending loss of the obsolete and

uneconomic tax called *octroi* or town duties. And even in smaller towns, they would certainly fall on the classes best able to bear such taxation, and thereby improve the credit of the locality. As adjuncts to the imperial or provincial finance we consider such taxation quite unsuitable.

IV.—Other Sources of Revenue

But while the possible sources of new taxation cannot be expected to meet fully the requirements of an ambitious programme of industrial development and social reform, we must realise that a well planned scheme of industrial development might, after a very short period, yield substantial revenues to the Government, and thus facilitate its own extension. There are a number of obviously paying industries which the Government of India might start or assist;* and which, if only the programme is carefully planned in advance, would be so productive as to meet the burden of further extensions and improvements out of the revenues of projects already commenced. Thus, to mention but a few of the most obvious cases, we would suggest that we have great possibilities of developing the shipbuilding industry. If only the mail and the coastal traffic are reserved for Indian built and Indian-owned ships, within three years the shipping department of the Government would meet all its expenses and leave a handsome surplus, if we are to believe the calculations of the newly started shipping companies in this country.† It would obviously be a source of considerable capital outlay at first, though nothing like the outlay required for the rail-

* It is bound to be a seriously controverted question as to whether Government should undertake remunerative enterprise of the type described above, or leave it to the mercies of private initiative and speculation. We are convinced, for reasons which cannot be detailed here, that the best course in the case of industries non-existing in the country to-day, like ship-building on a large scale, would be for the Government directly to undertake and carry on themselves. It would save the waste inevitable from a multiplication of such ventures if left to private initiative, and at the same time smooth the question of affording assistance to the ventures, which would be sure to be demanded from Government on the plea of the novelty of the industry. It would also earn a considerable revenue for the Government, and allow the industry to be operated in the national interests, if, as in the case of ship-building, a national policy is demanded which is likely to be unacceptable to private proprietors of such an industry. It would prevent the establishment of powerful vested interest which might frustrate projects or policies of public benefit if private interest should clash with public objects. The only alternative to collective or public ownership, that we should feel disposed to try, is co-operative ownership. The latter, however, has a fair field in industries which do not lend themselves easily to be concentrated and worked on a large scale, which are essentially local in their character. Co-operative enterprise has not yet been tried in India in the domain of industrial production; and, though personally we feel sceptic about its success, especially when the interest of the co-operative proprietors should come into conflict with those of their employees on the one hand and the consuming public on the other hand, we think as an economic experiment there is much to be said in favour of giving a fair trial to the co-operative production, in such cases like forest exploitation for example, including rubber plantation and manufacture, wood-distillation, paper mills, etc.

In other cases requiring large capital, it would be best to confine the industry to the State and work it on a collective basis. The only danger that at this stage has to be feared is a possible growth of provincial rivalries, if localisation of industries takes place irrespective of local sentiment. We believe, however, that the growth of a national sentiment, combined with the use of the industries thus commenced for a truly national object, would go a long way to mitigate the force of provincial jealousies.

† The fact that recent private ventures in that line now stand at a discount is explained by other factors which have nothing to do with the possibilities of that industry in India. Cp. the *Economics of the Shipping Industry* by S. N. Haji, who has exhaustively considered the subject mainly from the Indian standpoint, though the work may justly be regarded as a veritable contribution to the economic literature of the world.

ways. The total capital required for such industries would have to be borrowed, where the revenue surplus would not suffice to afford the necessary means for construction and improvement. Then, again, there is the motor car industry. The possibilities of this new industry are not yet fully investigated; and it may be that the poverty of India in the matter of iron and steel may render the profitable establishment of this industry difficult. Should, however, it be found possible to undertake the project, Government would obviously be the best agency to tackle it. The much more profitable industries, still untried in this country in spite of great possibilities, are the industries connected with forests and mining enterprise. Banking and insurance business, which to-day bring crores of rupees of profit to private individuals, mostly of non-Indian domicile, rendering by no means the most efficient service, are a legitimate field even now of public enterprise, and, in the alternative, of special taxation on non-Indian concerns in this department of commercial adjuncts. These would mean, without even a period of initial waiting, considerable revenues to the exchequer. If in addition to the orthodox or conservative banking and insurance business, the State embarks upon a more ambitious scheme of industrial and agricultural banking; if, besides the hackneyed business of fire, life and marine insurance, the State affords insurance against railway accidents, against burglary or other similar risks, against industrial disabilities and agricultural pests, the business can be very considerably extended, causing very little additional outlay to the State, particularly if the post offices and railway stations are utilised to serve the public in such matters. The public confidence will be all the greater in such enterprise when conducted by the State than when carried on by private individuals. The existing private institutions of this kind are admittedly inadequate for the needs of the country even in the limited business they now transact. There could, therefore, be no reasonable objection to the State extending its activities in the same sphere for public benefit; and the existing corporations will in all probability gain by the support of State institutions when established. The revenue from a well developed banking and insurance enterprise of the State alone may be put, at the lowest, at not less than ten crores annually.

The question of finding the necessary funds for the establishment of all these various ventures has again and again been indirectly referred to, but not specially discussed. Borrowing would no doubt have to be resorted to on a large scale for the initial outlay, while all subsequent extensions may be expected to be met out of the current revenues. The Government of India has already accumulated considerable reserves for the stability of the Anglo-Indian exchange, and for the convertibility of their paper money in circulation.* A portion of these funds may be safely diverted to such

* Rather than fritter away the accumulated resources of India as represented by the gold standard reserve in London, by an ineffectual policy of maintaining exchange, it would be more profitable to divert the fund, or at least part of it, to such purposes. If the two reserves could be encroached upon for such purposes to the extent of half, they could supply sixty crores without borrowing. If the Imperial Bank should introduce such expedients as the postal cheque or the Giro system, the possibility of danger would be considerably reduced, and people would gradually learn to economise the use of metallic money.

projects, particularly if simultaneously improvements in banking facilities render the apprehensions about exchange and conversion relatively innocuous. There are, besides, considerable amounts locked up in charitable funds, which might, if the Government commanded the full confidence of the community, be utilised for the same purposes.* The sums possessed by religions bodies, and remaining practically utterly idle, are another source of capital, which a national government of India must tap rather than render its credit sensitive by a resort to foreign money markets. It would be bold to say how much of the immediate capital requirements of India could be provided by India herself; but a modest estimate might suggest that half those needs could be met by indigenous resources, if only the Indian financiers know the right means to set about their business.†

The object of these suggestions for the extension of State enterprise in matters industrial is two-fold. On the one hand we shall need considerable resources for works of moral and material benefit of the country, which cannot be found from the existing resources. On the other hand the undertaking of such projects as has been suggested above would necessarily result in the creation of additional employment, and consequently more wealth, which alone can combat the appalling poverty of India. If the proportion of employment, which now obtains between agricultural and other occupations, can be altered even by the addition of a third of the present agriculturist population to industry, transport or commerce, the pressure would be substantially reduced on agriculture, and the horrors of famine and unemployment would be avoided.‡

As already mentioned, it is impossible to outline all the reasons why we have advocated State or collective enterprise in at least the absolutely new industries. One reason at least may here be mentioned. That India must work out her industrial ambitions by adopting the methods which are now collectively described as the industrialism of the west does not admit of any question. There is no hope for the handicraftsman and the

* No one can say exactly what amounts are locked up in ineffectual charities, or religious institutions or bodies. An estimate once made by the author as president of the All-India Jain Conference, 1915, for his own community, of only a million souls all over India, indicated for that community alone a total of over 100 crores of realisable wealth at present lying utterly idle. The estimate was based on a guess of the possessions of individual temples and monastic orders in 1915. Its accuracy was never challenged, though, of course, the suggestion to divert this wealth for industrial or other social purposes was naturally most violently attacked. If we take into account the wealth of the Hindus, Moslems, Christians, Jews and other sects, the figure would be large enough for all immediate needs.

† The immediate available funds in India itself may be thus estimated :—(1) Savings Bank Deposits, Rs. 20 crores. (2) Half of Paper Currency and Gold Standard Reserves, Rs. 60 crores. (3) Deposits obtained by improved banking methods, Rs. 50 crores. (4) Public Trust Money, Rs. 30 crores. (5) Portion of reliable and available capital locked up with religions bodies, Rs. 200 crores. Total Rs. 360 crores.

‡ I have worked out this question more fully in my lectures on "Indian Industry and Commerce," not yet published. The conclusion is the same, but I think in the established industries of cotton and jute, for example, the co-operative production and distribution might be tried as an alternative to private enterprise, as a solution of labour unrest, as a modification of the dangers of a protectionist tariff policy. In transport and in industries based on agriculture, like sugar refining or rubber manufacture, also, there is a limited field for the co-operative enterprise.

small artisan ; or else there would be no chance for India to become a great industrial country.* If this principle is accepted, India would be able to avoid all the dangers involved in the class conflicts, monopoly pressure, private greed, waste or short-sightedness, if from the outset the principle of collective enterprise is frankly and fully adopted, in at least those industries which, admitting of large scale, concentrated operations, are yet quite new in the country, and therefore have no vested interests to contest or conciliate.†

V.—Summary of Recommendations

We have now reviewed the principal sources of revenue and expenditure of the Government of India, and made our suggestions touching the improvement of a good many of them. If the recommendations made in this work were all given effect to, the budget of the Government of India, taking the imperial and provincial accounts together, as has been the case until very recently, would stand somewhat as follows :—

Revenues.	In Crores of Rupees.	Expenditure.	In Crores of Rupees.
Land Revenue	20·00	Direct Demands ...	15·00
Opium	3·00	Interest on—	
Salt	5.00	Industrial Debt ...	20·00
Stamps	15·00	Agricultural „ ...	15·00
Excise (including tobacco) ...	20·00	Transport „ ...	15·00
Customs	55·00	Unproductive „ ...	20·00
Income Tax & Death duties	45·00	Education	40·00
Forests Domain ...	10·00	Police	10·00
Registration (marriage fees)	10·00	Post Office	10·00
Post Office	15·00	Sanitation	5·00
Railway Property (net) ...	20·00	Law...	7·00
Irrigation	5·00	Agriculture	5·00
Industrial surplus † ...	10·00	Miscellaneous	5·00
		Pensions, &c.	12·00
Miscellaneous Fees ...	7·00	Transport and Communications	10·00
		Defence (including Navy) ...	45·00
		Industrial ... ... Development	11·00
Total Revenue ...	240·00	Total Expenditnre ...	240·00

* The emphasis laid by Mr. Gandhi, in his non-co-operation campaign on the spinning wheel as the one redeeming agency for India, seems to imply a curious perversion of history. The spinning wheel has no future against the power mill; and, as a nation, we cannot allow the waste of energy involved in denying to the nation the mechanical improvements and labour-saving devices perfected in the west. Without being at all enamoured of the western industrialism, we may yet refuse, in the interests of the Indian nation, to surrender the triumphs over nature won by man whether in the east or in the west.

† To the degree that collective enterprise succeeds, the financial problem would change its aspect from that of public revenues to the one of a more equitable distribution of the national wealth. Profits, as we now understand them, will not be the one index of success; for the profits will be absorbed more and more by increase in wages or by cheaper service to the community.

In these figures, which are of course, very rough guesses, the principles involved have already been discussed before, as also the reasons for increased estimates given above. The only explanation that need be offered here is : The land revenue has been reduced from 35 to 20 crores with a view to give effect to the principle of exempting a minimum of income from taxation. Again, while the ideal of abolishing the drink traffic or that in other intoxicants must never be lost sight of, and that attempts must steadily be made to reduce all traffic of the sort, and consequently all revenue therefrom, the figure given above will, for a few years to come, go on ; and, with the addition of a tobacco tax as mentioned elsewhere, the figure may well be maintained at 20 crores even with total prohibition. It is only in the last item, the profits from the industrial domain of the state, that we have provided a remedy for the predilections or weaknesses of the financier, inasmuch as the declining revenue in excise will be more than compensated for by the increase in the last item in the list. Similarly, the customs revenue, though no longer devised merely for the purpose solely of revenue, will be a growing item at first, with possibilities of effective checks to the growth in proportion as the ideal of indigenous development is realised. In that case, if our system of finance is properly balanced, the increase in the last item as well as in the income and other direct taxes will make up for the decline in the customs revenue. For the post office, the forest domain and transport items, no further explanation is needed. The elimination of the item of tributes from the Native States is in accordance with our conception of the solidarity of the Indian nation against which these anachronisms of Indian States are so many hindrances. We have discussed in a later section the possibility of rearranging the finances of India on a national basis. The items of interest, and miscellaneous receipts have been altogether excluded from the revenue side, as also the whole of the municipal and other local revenues as being all pledged to purely local services.

On the side of expenditure, it is necessary that the military expenditure should be definitely limited, by a clear definition of the purpose of the army. There must be no occasion for any subterfuge, no possibility of its abuse in aggression upon our neighbours. And in so far as these neighbours may afford legitimate grounds of apprehensions for our national safety, the limits must be clearly, precisely drawn as to the point where national defence ends and imperialistic aggression begins. The head of interest is explained by its subdivisions. We have classed, against the principle laid down elsewhere, education under departmental expenditure, not because we have lost sight of the fundamental distinction, but because for the purpose of this summary such a classification is convenient. The table given above does not show at all the one principle of public expenditure in India on which we have insisted elsewhere. There will be no chance of a radical reform in our financial system so long as the home charges are not utterly abolished ; no means of introducing a rational currency system, so long as our Government

continues to be obsessed with large annual payments to be made in a currency other than the one commonly accepted, or legally established, in the country. The mere expedient of increasing the proportion of Indians in the public services will not help. We must definitely resolve finally and completely to do away with the costly foreign agency within a given period. Our non-effective charges will thus be payable within the country, while the incubus of the British War Office will be abolished. As regards interest, even granting that a certain amount has to be paid out of India, the burden will be insignificant if the indebtedness is incurred for productive purposes on strict commercial principles, and is managed by properly conducted banking institutions.

In civil expenditure, we have urged, in its proper place, the need for a revision of the salaries and allowances of the public servants ; and the saving expected on this head is distributed over the several items given above.

The industrial expenditure may be of capital and non-recurring nature, or may be recurrent. It would be best to charge it against revenue upto a sum suggested in the table, and beyond that to loan account.

PART IV

The Public Debt of India

I.—Nature of Public Credit and the Necessity of its Use

The practice of borrowing by great states in modern times has become so common that we are apt to forget the relatively very recent origin of this use of public credit, and also to misunderstand its nature. If by credit we understand the power to obtain command over another's capital or wealth, acquired with the free consent of the true owner in return for a promise to reimburse at a later date, together with a regular payment of a stipulated interest, we must recognise some important fundamental differences between public and private credit, and the consequent difference in the treatment of public and private indebtedness. In the case of private individuals, in all ordinary borrowing, the borrower must offer to the creditor some security—a mortgage or a pledge—out of the borrower's existing or expected wealth, without which the loan operation would be difficult. In the case of public borrowing by the state, it is, as a rule, impossible for the state to alienate any portion of the public domain, even if the state possesses one.* In fact, in most cases, the effective cause of borrowing by the state is the absence of any realisable and alienable wealth belonging to the Government as representing the state. This great difference between a private borrower and state borrowers leads to considerable divergences in the contract of loan. The creditor in the case of private borrowers can, in the last resource, realise his claim out of the specific security obtained at the time when the loan contract was made; but there is very little, if any at all, possibility of this nature in the case of the indebted states. Again, while a private borrower, given the will and the foresight or prudence required, can make regular and immediate provision to meet his debt when it should fall due, by increasing his efforts to produce or by cutting down expenditure, the debtor state cannot

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* For the liquidation of German indebtedness, the proposal to hypothecate the German railways and public mines used to be freely mentioned. In a manner the conditions of reparation in the Versailles Treaty suggest an indirect hypothecation of the whole of the German national resources. It remains to be seen how far the sovereignty of the new German state will in practice prove compatible with these conditions, how far the League of Nations would enforce or modify the Versailles Treaty in this particular.

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Since the publication of the first edition of this work, the Versailles Treaty has been considerably modified as to reparations, under what is known as the Dawes scheme; and Germany herself, an outcast, for eight years, is now a full member of the League of Nations.

always and readily adopt such a course. More often than not, its loans have been 'contracted for purposes which have no substance or surplus behind. And the public expenditure of the state admits of no rapid and proportionate curtailment, such as would guarantee the repayment of the loan when due. Works may have been commenced, or policies adopted, which could not be altered, and therefore, expenditure in connection with them cannot be reduced. Public servants, again, may have been engaged, who cannot, without serious risk of chronic unemployment and wide-spread misery, be dismissed to afford relief to the public expenditure. Hence, though the state enjoys the advantage of being the sole judge of its own solvency, though it admits no limits to its revenues save those imposed by the absolute needs of its citizens, it is yet in a markedly difficult situation in the matter of retrenchment to repay its debts.

Such being the differences between the nature of private borrowing and that of the state, the question next arises how far, and on what grounds, is it advisable for the state to borrow. If on every occasion that the receipts do not suffice to meet the disbursements recourse is had to borrowing, the limit will soon be reached beyond which not all the exercise of the sovereign power of the state would suffice to meet even the interest charge on the new debt added every time. Under such circumstances the state will be faced with an annihilation of its credit altogether. The common device of incompetent or timid financiers to borrow on the pretext that the deficit in the budget is due to " extraordinary " expenditure, not likely to recur in the subsequent years, and therefore not fit to be charged on the current revenues, is subversive of all sound principles governing the management of public credit. An outlay, which in a given year appears to be extraordinary, *e.g.* reorganisation of the army, or the cost of a military expedition, or of famine, may yet be recurring, if not in the same form or the same object in the subsequent years, at least with the same effects as far as the public purse is concerned. But even granting the non-recurring character of such extraordinary expenditure, that by itself is no justification for a recourse to borrowing rather than looking to current revenues to finance such an outlay. * It may, indeed, be that the revenues of the state are for the moment so fully charged with the ordinary expenditure, that, for that year at any rate, borrowing may be inevitable ;

* In England, the home of sound finance, the opinion seems to have gained ground ever since the time of William Pitt, the younger, that it would be preferable, as far as possible to finance a war by increased revenue than by loans ; and what applies to war applies to all other apparently extraordinary non-recurring expenditure. Gladstone, in his budget speech of 1854, has made the principles governing war finance classic. The line of distinction between what outlay should be met by loans and what by taxation may be said to lie along the possibilities of benefit to the subsequent generation. Borrowing would be necessary as well as commendable, if from a contemplated outlay the generations to follow are expected to derive material benefit. Borrowing would be ruinous if incurred only to cover up the waste caused by our generation in the eyes of our posterity. It must also be considered with reference to the effect on the distribution of wealth within the country. The eighteenth century opinion that all public borrowing is beneficial is thus without justification.

but if so, such a loan must be for the shortest possible term, and provision must be made by the state to pay it off from the increased current revenues. No debt incurred to cover a temporary deficit in the ordinary income should be such as to accumulate and increase till its interest charge should come to be great enough to absorb all possible increase in the revenues.

The proper justification for the use of public credit, then, is to be found in those objects of public utility, the cost of which is too large to be met out of current revenues, and the result of which is expected to be such an addition to the current revenues as to render the burden of the debt insignificant. As all public borrowing is an inroad upon the capital of the citizens, which is thereby diverted from productive purposes in the hands of private individuals, the state would not be justified in causing the diversion, unless it is expected to accomplish a similar object which private individuals may not attempt because of its vastness or unfamiliarity. It may sometimes happen that public borrowing for objects of utility, or rather for reproductive purposes * would not meet this test, if we consider only pecuniary results to the state itself; but if, as the consequence of this extension of public activity, there is an addition to the wealth of the community, this indirect gain to the state may afford sufficient justification for the original borrowing. And there are other advantages of the state utilising its credit for such purposes. It gives an impetus to the instinct of saving, and consequently to the formation of capital by affording safe channels for investment. Its operations engender, also, the habitude of dealing in securities or intangible wealth. Only, care must be taken that by too frequent a recourse to borrowing the state should not destroy all spirit of private enterprise, or create unnecessary fluctuations in the market for capital which might lead to unjustifiable speculation.

If public indebtedness should have been incurred exclusively for productive purposes, the question of paying off the debt has hardly any practical interest. The question must, no doubt, remain very important in every case of a debt incurred for purposes which leave no tangible assets behind it to meet the charge. Provision, whether by means of a sinking fund or other specific reserve, or by additional taxation, must be made to pay off such a debt; for the sooner this useless burden is removed the better for public credit and general welfare. But in the case of debt incurred for objects indicated above, the surplus revenues, after a certain period, would suffice to bear all charges, and provide for liquidation automatically. If under such circumstances, no effort is made to pay off the capital even though there is a surplus, the

* Borrowing only for productive purposes would not, it may be suggested, cover the case of borrowing for railway construction; for strictly speaking transport is not production, but only a facility in exchange. Borrowing for productive purposes is not necessarily the same thing as borrowing for objects which will ultimately pay to the state.

state may have other objects in view, or some special justification. In any case there would be no need for anxiety so long as the surplus created is not what the French writers call "*gaspillé.*" In a society in which some kind of collective enterprise is accepted, but which does not exclude private enterprise altogether, it would be wise for the state to clear its property as soon as may be of all charges, including those for capital redemption, particularly if the programme of public borrowing for similar purposes is a continuous one. It would not be wise to suffer public credit to be impaired merely by overconfidence or indifference. While no special effort is needed, and no additional taxation has to be imposed, it would yet be prudent to apply the normal surplus due to such enterprise to pay off the debt charge.

It may, however, be observed that the present universal practice consists in giving a collective guarantee of the credit of the state as judged by its total revenue resources, without any attempt at specification, without any idea of setting apart given revenues for given objects. The practice of consolidation is no doubt advantageous, particularly in a rich state with a variety of obligations incurred at different times for different purposes. As in such a case there would be a possible chance for the weakest link in the chain to determine the strength of the entire chain, consolidation helps to prevent such weakness from becoming apparent to the prejudice of the credit of the state. As no state is quite free from some part of its debt being for wasteful purposes, the practice of consolidation may on the whole be condemned. It has, moreover, another advantage in that it helps the state to avail itself of any fall in the rate of interest, and thus reduce its total burden by way of interest. The practice, if uniformly adopted, would prevent the automatic liquidation of that portion of the debt which may have been incurred for productive purposes. In that case the only safe recommendation would be analogous to the policy followed in England before the last great war: apply all the available surplus for the redemption of the debt, arranging the normal standard of revenue and expenditure so as usually to leave a surplus.

II.—The Origin and Growth of the Public Debt of India

The public debt of India, as it exists to-day, is the creation exclusively of British rule in this country. The previous governments had to live necessarily within their income, as much from the ignorance of the nature and use of public credit, as from the impossibility of putting it to proof in a well ordained manner, even supposing the earlier financiers understood the character and aim of public credit.* India had, therefore, no "National

* This, of course, does not mean that the ancient Indian potentates did not indulge on their account into occasional borrowing; and whenever they did they could have offered the only security they commanded, the public revenues and public property of their states. There was no clear distinction between the private operations of the ruler and the public obligations of the State. Nevertheless, as all such indebtedness must, by its very nature, have been of short duration, it was paid off or written off or suppressed without becoming a public and permanent charge.

Debt" prior to the establishment of the British rule in the country. The East India Company, as already observed elsewhere, was a notorious offender against the canons of sound finance. Whenever its revenues failed to suffice for its expenditure, it had recourse to borrowing. When the trading charter of the East India Company expired in 1835, the total rupee debt *i.e.,* the debt incurred in India, was Rs. 33·295 crores as the result of war and conquest. In the next fifteen years, the Afghan and Sikh wars combined to raise the debt, by 1850, to Rs. 45·336 crores, which remained nearly at the same level right upto 1857. The heavy expenditure involved in suppressing the mutiny caused a considerable increase in the total indebtedness, amounting in 1859-60 to Rs. 63·555 crores. On the transfer of the Government of India to the crown, the Crown assumed this debt of the Company in addition to a payment of £12 millions to the proprietors of the East India Stock, which sum was also added to the debt of India.* The sterling debt during the Company's regime was insignificant. The following table shows the growth of this debt from 1820 in ten yearly periods.†

‡ Year.		Registered debt in India	Interest payable	Registered debt in Eng.	Interest payable.
		Rs.	Rs.	£	£
1820-21	...	27,24,77,630	1,63,15,400	5,762,888	253,247
1830-31	...	33,12,96,680	1,74,19,770	3,750,479	93,377
1840-41	...	29,47,65,040	1,35,37,050	1,750,992	59,856
1850-51	...	45,42,87,550	2,12,39,750	3,920,592	136,482
1860-61	...	63,44,58,100	2,88,34,460	28,496,917	1,249,832

* *Apropos* of this debt, the Welby Commission observes :—"The history of this debt during the last 60 years conveys an interesting lesson in finance. From 1838-39 to 1861-62 deficit was the rule and surplus the exception, for 19 years of the former were arrayed against five of the latter. The statistics of the Company leave much to be desired in precision and the figures of the early years must be taken only as approximate...... The permanent debt of India, whether raised here or in India, amounted, on the 30th April, 1842, to £33,577,414. On the 30th April, 1857, immediately before the Mutiny, it amounted to £51,327,958, an increase of 53 per cent. in 15 years. The 30th April 1862 marks the close of the Mutiny expenditure and the permanent debt had then risen to £97,037,062 an increase in 20 years of nearly 190 per cent."

† Owing to imperfections in the statistics, the figures for this period as given by different authorities do not agree. See *inter alia* Wilson's first budget statement, Dutt's *India in the Victorian Age*, Strachey (op. cit.) the statistical abstracts, etc. The Welby Commission figures are from a Parliamentary Return of 1881.

‡ Of course the rupee and sterling figures are not to be understood as showing a difference in the proprietorship of the debt making the rupee debt belong to Indians and the sterling debt to Englishmen. Though no definite information is available, it is probably quite true that a considerable proportion even of the rupee debt was held by Englishmen in England. One can easily understand that in the early years of the Company's rule they could not have persuaded Indians to lend to the Government,

The East India stock of £12,000,000 was provided for by a special fund, which would have paid off the amount by 1875. Though this debt was actually paid off in 1874, the fund for the purpose was less by £4,579,416 for the amount in 1874; and consequently that sum was added to the permanent debt of India.* But the whole of this transaction relating to the transfer of the debt incurred by the company to the Government of India under the Crown has been challenged from the stand-point of political justice. The debt had been piled up to effect the conquest of India, and when the empire was acquired by the Crown, the cost of its acquisition was saddled on the Indian exchequer. In the opinion of Mr. Dutt† an impartial tribunal discussing this debt would have ruled that no claim lay against India as to £69½ millions of the debt, which was "part of the unjust demand of an annual tribute which India should not have paid." The cost of suppressing the mutiny by British troops, amounting to £40 millions, might have been allowed against India, subject to a deduction for the expenditure incurred by India on the wars waged for British imperial purposes—wars with Afghanistan, Persia, or China. The public works debt of £24 million would also, he thinks, have been allowed against India, subject, possibly, to injunctions against further borrowing to meet wasteful guarantees on railways. "A hundred millions of the so-called public debt of India would thus have been struck off as not justly due from India........... There would have been no national debt; for there need be no national debt in India."

III.—Interest Rate and Conversions 1850-1915

We cannot quite adopt the view underlying the last statement, though as regards the major portion of the Company's unproductive debt†, opinion may well be divided as to whether India could in justice be asked to bear its burden. The offence of the Company was all the greater, because while they went on borrowing for wars and similar wasteful purposes, they made no provision to pay off the debt. Some attempts at funding and conversion were made during the closing years of the Company's rule, but they were of no avail. The interest on the rupee debt was in 1820 at the rate of 6%, and the debt bearing this higher rate was not paid off till 1858-59. From 1823 to 1853, the Company had borrowed at 5%, and between 1824 and 1835 small amounts had also been borrowed at 4%. The bulk of the 5% debt was converted into 4% in 1854, but the shock to the credit of the state caused by the mutiny necessitated more borrowing at the higher rate of 5% which was not finally paid off till 1871. In 1859, the Government of the Crown had to borrow at 5½%, and that loan was not paid off till 1878-79. The 5½% loan was, however, converted in 1871 into 4½%, so that after 1878-79 practically the whole rupee debt was at interest varying

* Para. 118 of the Welby Commission Report.

† P. 375, Dutt, p. c. cit,

between 4% and $4\frac{1}{2}$%.* The $4\frac{1}{2}$% loan was converted by 1893 to 4% with the exception of a sum of Rs. 1 crore borrowed from the Holkar Durbar for the Indore State Railway, and not convertible till 1970. In 1893 commenced the first $3\frac{1}{2}$% debt and in the next year the bulk of the 4% debt was converted into this lower rate debt. In 1896-97, a new loan of Rs. 4 crores was raised at 3%, but in 1900 the rate was again raised to $3\frac{1}{2}$% which remained the prevailing rate until the world war broke out in 1914.

IV.—Origin of Productive Borrowing

Productive borrowing entered into the scheme of the East India Company's finance to a very small extent towards the close of its regime. The principles which ought to govern such borrowing were not, however, properly understood at first. The only productive outlay by the company was on irrigation canals in the United Provinces and the Punjab, which was estimated to have cost in all about Rs. 5,40,00,000, by 1862.† In 1867-8 a new policy was adopted. The state from that time determined to charge all expenditure on irrigation and construction of railways by the state to a capital account. The item of "debt" was split up into two in the public accounts, one of which was the "Productive" or public works debt, the interest on which was not to be charged under the general heading of "debt," but under the railway revenue account and irrigation. The remaining portion of the debt was to be called ordinary debt, interest on which was to be charged under the general heading of debt. In working out the new policy it was found, that as the Government of India had provided for no sinking fund, and as no positive law required the application of the revenue surplus to the redemption of the debt, while the grand undertakings of public utility demanded considerable and recurring expenditure, it was most convenient to devote all spare or surplus revenue, not to the purchase of debt with a view to its cancellation, but to capital expenditure on works for which the state would otherwise have to borrow. In order, however, to show accurately the amount of this capital expenditure, the revenues thus expended

* Prof. Ramsay Muir in a letter to the present author, criticising his work on the *Governance of India*, objects to this view as being unjust. He considers that the British crown, taking over the Government of India from the Company, was in the same position as a capitalist or land-lord buying an estate which he thinks has immense possibilities, but which needs considerable outlay for reclamation works before the estate could be made to pay. As the capitalist does not wish to obtain any profit for himself from the estate, he could not be blamed if he charges the estate at least with the cost of reclamation. We cannot agree to this view of the case. It is open to argument whether the British Crown—the capitalist—has not derived, directly or indirectly, considerable gain for the British public out of this rich estate of the Indian Empire, even if we accept that the Company's debt was incurred for anything at all similar to reclamation. Indians will find it difficult to adopt this view. In any case granting the whole position of Prof. Ramsay Muir, it only comes to this that the British crown should not have been charged with the East India Company's debt. It does not show why India should bear that debt. Possibly, it would be most in accordance with political justice to say that the debt should have been borne by neither India nor England. The creditors must be taken to have lost their claim on the demise, after insolvency, of their debtor, the East India Company.

† Out of the total rupee debt in 1178-79 of Rs. 76·48 crores, Rs. 15·14 crores was $4\frac{1}{2}$ per cent. and Rs. 61·333 at 4 per cent.

This sum of Rs. 540 lakhs was spent on public works before 31st March 1867, and the public works debt was increased accordingly. The details of this outlay are vague. See para 118 of the Welby Commission (Majority) Report for some explanations and adjustments.

are charged to the "public works" portion of the debt and a similar amount is deducted from the ordinary debt. If in any year Rs. 1 crore can be saved, the amount is spent on productive or protective works, and a corresponding addition is made to the public works debt, and a simultaneous and equivalent deduction from the ordinary debt. The effect is the same, but the cost of a double operation is avoided, and the revenue surplus applied automatically to productive or public works purposes.

V.—The Ordinary Unproductive Debt of India

The Ordinary debt, whatever its justification, has, by the operation described above, been steadily reduced, even though the Government of India have not followed the English precedent in this respect of buying debt for purposes of cancellation. Between 1860 and 1925 it was frequently added to by the three main factors of famine, war and exchange, while it lasted; while in the post war years the heavy and recurring deficits accounted for very considerable additions. The marginal table, however, shows that in spite of such additions, the total debt was, upto 1914, regularly reduced, with a corresponding increase taking place in the productive debt, in so far as revenue surpluses were devoted to these purposes. During the World War the unproductive debt was very considerably increased, first in 1915–17 to meet the requirements of the Government of India, and after 1917 in order to make a war contribution of £145 million to the United Kingdom. The policy of borrowing during the war had, if at all, to be carried out in India, as the English money market was already too heavily strained by similar operations of the British Government to permit any considerable borrowing by other bodies. But borrowing in India, apart from the intrinsic wisdom or necessity of such a course as between England and India in view of the past history, inevitably led to an undesirable deflection of Indian capital from the more productive and legitimate channels. For the first time in a hundred years an opportunity had occurred for the development of Indian industries by Indian capital; but that opportunity was baulked by a policy of heavy borrowing, often under considerable pressure from official quarters. The evil might have been borne without protest as an inevitable misfortune of war-time, could the people of India have consoled themselves that the service rendered would have been at all adequate. But a policy which might put back the Indian industrial development by a generation could not, even if it had been realised to the fullest desired extent,

Date.	year.	Ordinary Debt. Rs.	P. C. of total.
31 March.	1888	109·5	48·5%
do.	1893	97·5	37·14%
do.	1898	105·2	36%
do.	1903	88·7	28%
do.	1908	56·1	15·24%
do.	1913	37·5	9%
do.	1914	19·2	4·6%
do.	1915	3·3	·8%
do.	1916	3·0	·7%
do.	1917	10·5	2·5%
do.	1918	133·3	24%
do.	1922	218·16	29·5%
do.	1923	245·60	31·0%
do.	1924	257·70	31·1%
do.	1925	247·39	26·0%

have borne the British war expenditure for more than a fortnight in 1918. And, even so, India might have endured this borrowing in silence, had there been no alternative. As a matter of fact, the British Government was borrowing heavily in the United States which had immense resources to offer to its allies. The Government of India could have borrowed in America, either directly themselves, or taken over a part of the debt of the British Government equal to the promised contribution, much more easily than in this country. The service to the Empire would have been the same, while the disturbance to Indian industrial development would have been completely avoided. As it was, the policy of borrowing in India was continued at the expense of serious inflation in prices till its logical conclusion had to be accepted in 1918—prohibition of all industrial investment except under license. No one can say what would have been the ultimate consequences if this policy had lasted a couple of years more. Luckily, however, the war came to a close in 1918 November, and this disastrous policy was shelved.

VI.—Interest, Receipts and Expenditure

We may at this stage consider the head of Interest in the public accounts. There are both receipts and expenditure under this heading, and the net charge would be obtained only after making allowance for these receipts. The marginal table shows the growth of this item of net expenditure during the last sixty years. It appears as an item of net charge because the profits from Productive Public Works are not set off here against the interest paid on capital supposed to have been borrowed for the purpose. In addition to the ordinary debt, there is also a certain amount of unfunded floating debt represented by Savings Bank deposits and other similar obligations, interest on which is also included.

Year.	Interest Receipt. Rs.	Interest charge. Rs.	Net charge. Rs.
1861-62 ...	3,42,180	3,13,48,970	3,10,05,790
1871-72 ...	36,32,120	5,96,62,990	3,60,30,870
1881-82 ...	89,69,040	7,48,83,800	6,59,14,760
1891-92 ...	87,94,430	9,62,33,500	8,74,39,070
1901-02 ...	1,17,85,200	10,59,43,920	9,47,58,720
1911-12 ...	2,17,31,108	14,82,72,186	12,65,41,078
1912-13 ...	2,21,05,618	15,24,83,943	13,03,78,325
1913-14 ...	2,02,81,776	15,18,54,653	13,15,72,877
1914-15 ...	1,53,49,606	15,76,94,998	14.23,45,392
1915-16 ...	1,64,46,257	15,99,65,042	14,35,18,785
1916-17 ...	1,70,47,563	15,52,10,852	13,81,63,289
1917-18 ...	3,25,51,621	25,49,88,682	22,24,37,011
1918-19 ...	5,74,41,320	26,95,15,443	21,20,74,123
1919-20 ...	6,57,99,670	28,90,25,284	22,33,25,614
1920-21 ...	4,30,21,801	31,89,81,339	27,59,59,538
1921-22 ...	2,18,90,036	30,96,96,655	28,78,06,619
1922-23 ...	2,56,01,860	31,81,13,572	29,25,11,712
1923-24 ...	4,75,26,479	35,98,06,204	31,22,79,825
1924-25 ...	5,25,61,676	38,61,55,547	33,35,93,871

The receipts under interest are derived from profits of the invested portion of the Paper Currency Reserve and of other Reserves and Balances, Loans made to Native States, Provincial Governments and local bodies, &c. The following table gives an analysis of these receipts :—

* In September 1918, the Government of India promised an additional contribution of £45 million, if the War was prolonged, and if India had not to face any extraordinary expenditure for war or famine herself. Both these eventualities did occur in 1919-20, and the contribution is once again under discussion. The Afghan War alone has cost £16 million. There is no reason to continue this contribution now. Eventually the Indian War contribution was very mnch reduced.

*Analysis of Interest Receipts

Item	1921-22.	1922-23.	1923-24	1924-25
I.—Loans and Advances.	Rs.	Rs.	Rs.	Rs.
1 Indian States, Landholders and other notabilities	6,01,610	5,64,762	5,29,262	8,00,483
2 Presidency Corporations including Port Trusts	32,05,762	34,19,444	35,55,429	36,27,351
3 Mofussil Municipalities ...	13,49,989	16,59,270	16,40,529	17,30,206
4 Cultivators	33,61,779	47,61,368	39,04,658	32,88,592
5 Other items	36,34,066	59,82,534	88,47,754	1,26,98,757
II.—Investments—				
1 Bombay Development ...	...	...	...	13,50,000
2 Securities of Railway Companies Provident Fund	30,95,271	44,00,462	36,58,254	36,67,591
1 Arrears due	3,40,055	3,77,641	2,40,017	3,29,513
2 Overdrawn capital of Railways.	37,107	54,490	76,047	65,054
3 Advances to Railway companies charged to capital	4,51,974	8,32,283	10,61,848	16,44,095
4 Other items	44,73,591	36,29,169	2,41,92,424	2,58,77,925
Less refunds...	8,131	41,699	1,05,280	71,812
Total ...	2,18,90,036	2,56,01,860	4,75,26,479	5,35,61,676

N. B.—The division of Interest Receipts between Imperial and Provincial Budgets is explained by the fact that certain sums are annually placed at the disposal of the Provincial Governments, to be by them advanced to the cultivators or Local Bodies. The interest on these is taken by the Provincial Governments. The very heavy increase in the last 3 years in the item of interest receipts in England is due to (1) considerable investments in British Treasury Bills and other securities as a reserve against the special short term debt of the Government of India, and (2) increasing interest receipts from the larger and larger investments in the gold standard and paper currency reserves. In the two reserves combined, India has invested over £130 million in the various British securities. They have depreciated substantially, and a provision of £399,080 in 1916-17, and of £450,000 in 1917-18 was made by way of a depreciation reserve fund. These sums have been deducted. There is,

* In the first edition the figures given were for 1915-16 to 1918-19 and included the interest on Securities in the Paper Currency Reserve. In the figures for the later years as given above, these are not included though the interest on the invested portion of sterling reserves must be. The operations of the Paper Currency Department show the following financial results :—

	1921-22.	1922-23.	1923-24.	1924-25.
	Rs.	Rs.	Rs.	Rs.
Interest on Securities ...	4,19,79,665	3,32,90,042	2,92,42,785	3,55,22,088
Other cash receipts ...	3,34,345	2,94,271	3,70,198	2,91,576
Refunds	61,008	75,593	73,009	58,292
Expenditure	94,44,816	88,95,827	84,89,794	58,63,064
Net profit	3,28,08,186	2,46,12,893	2,10,50,180	2,98,92,£08

besides, a special reserve, the interest on whose investments was taken at £772,600 in 1918-19, and £291,200 in 1919-20. In the former year this figure has been included under the receipts by way of interest.

The following table gives an analysis of interest expenditure :—

Year.	Interest on total debt.	Interest on railway debt.	Interest on irrigation debt.	Interest on ordinary debt.	Interest * on other obligations.
	Rs.	Rs.	Rs.	Rs.	Rs.
1911-12 ...	14,82,72,186	9,99,63,150	1,77,43,005	2,15,27,280	90,38,751
1912-13 ...	15,24,83,943	10,60,88,227	1,92,37,695	1,75,35,705	96,22,316
1913-14 ...	15,18,54,653	10,95,47,173	1,95,72,690	1,08,96,405	1,18,38,385
1914-15 ...	15,76,94,998	11,86,83,214	2,11,42,935	67,47,600	1,11,21,249
1915-16 ...	15,99,65,042	12,03,39,336	2,17,70,250	76,73,340	1,01,82,116
1916-17 ...	15,52,10,852	11,63,89,830	2,11,98,075	67,81,770	1,08,41,177
1917-18 ...	25,49,88,682	12,23,32,217	2,27,33,925	9,74,83,755	1,24,38,785
1918-19 ...	26,95,15,443	12,45,18,044	2,30,91,060	10,50,04,860	1,69,01,479
1919-20 ...	28,90,25,284	13,14,51,465	2,34,88,620	11,53,74,061	1,87,11,138
1920-21 ...	31,89,81,339	15,07,77,107	2,39,45,495	12,27,09,302	2,15,49,435
1921-22 ...	30,96,96,655	15,66,27,934	2,71,90,151	12,01,88,147	56,90,415*
1922-23 ...	31,81,13,572	16,39,65,783	2,84,80,223	11,97,14,685	59,53,879*
1923-24 ...	35,98,06,204	17,57,74,052	3,08,54,590	14,67,16,398	64,61,270*
1924-25 ...	38,61,55,547	21,23,84,417	3,34,73,475	13,29,72,845	72,24,810*

A considerable amount of this interest is paid in England, and was responsible for a great portion of anxiety caused by the falling exchange in the closing years of the last century.† Upto the mutiny the interest-bearing sterling debt was very small; but in the three next years it was very largely added to on account of the cost of the suppression of the mutiny. Thereafter, the heavy and yearly increasing outlay on railways demanded regular additions to the sterling debt held in England, which thus comes to be even more important than the rupee debt held in India. The table below shows the two kinds of debt and the interest payable on either.

* Interest on other obligations as given in the last column includes, since 1921-22, the interest on postal and telegraph debt as also the debt incurred for the salt, forest and industries department. *Per contra*, interest on other obligations including the floating debt is taken over to the ordinary debt column.

† The Welby Commission (Majority) Report (para. 122-23) calculates the charge of exchange on the sterling debt of India at Rs. 1,73,70,000, on a real charge of Rs. 2,16,10,000 or nearly 80 per cent., or out of the total charge of Rs. 3,89,80,000 nearly 45 per cent.

*** Amount of the rupee and sterling debt and of the interest thereon, annual increase or reduction of the debt, and the proportion of the rupee debt held in London, from 1860-61 to 1924-25.**

Year.		Registered debt in India.	Registered debt in London.	Interest payable.		Proportion of the registered rupee debt held in London on 31st March.
		Rs.	£.	Rs.	£	Rs.
1860-61	...	63,44,58,100	28,496,917	2,88,34,460	1,249,832	†
1861-62	...	63,42,08,450	32,116,217	2,88,32,440	1,457,874	†
1862-63	...	63,82,11,060	31,860,017	2,89,95,320	1,430,765	†
1863-64	...	63,40,38,320	26,332,517	2,88,06,180	1,209,621	†
1864-65	...	63,36,66,840	26,146,017	2,88,00,400	1,233,165	†
1865-66	...	62,38,10,770	26,967,317	2,84,13,900	1,274,230	......
1866-67	...	62,97,84,230	28,559,917	2,87,13,200	1,402,540	......
1867-68	...	63,76,50,020	29,718,417	2,91,57,860	1,448,875	......
1868-69	...	63,41,06,910	31,218,917	2,89,87,270	1,469,916	15,38,06,930
1869-70	...	65,59,34,220	35,217,617	2,98,17,500	1,629,868	16,24,51,720
1870-71	...	66,80,96,570	37,627,617	3,01,56,310	1,726,268	17,64,70,910
1871-72	...	67,96,89,420	39,012,617	2,98,08,300	1,781,618	13,56,38,630
1872-73	...	66,45,83,690	39,012,617	2,89,20,500	1,831,467	13,04,77,110
1873-74	...	66,41,72,910	41,117,617	2,89,50,060	1,867,121	13,27,22,050
1874-75	...	69,84,99,590	48,597,033	3,03,35,320	2,165,164	14,05,71,800
1875-76	...	72,77,29,810	49,797,033	3,15,20,180	2,212,582	15,45,77,080
1876-77	...	71,92,31,260	55,397,033	3,10,98,710	2,436,271	14,21,01,660
1877-78	...	74,95,45,200	59,677,033	3,22,68,610	2,607,472	15,78,70,170
1878-79	...	78,83,89,260	59,029,117	3,25,77,260	2,581,555	17,14,82,760
1879-80	...	82,87,25,090	68,855,556	3,41,76,560	1,937,886	20,52,60,670
1880-81	...	85,95,97,460	71,429,133	3,55,92,700	2,846,478	20,26,31,450
1881-82	...	88,65,31,620	68,181,947	3,66,43,280	2,708,198	22,65,59,550
1882-83	...	90,68,87,660	68,585,694	3,74,11,490	2,725,748	22,58,11,320
1883-84	...	93,19,13,840	68,108,837	3,84,91,140	2,704,207	22,08,75,180
1884-85	....	93,18,36,600	69,271,088	3,84,18,550	7,691,828	21,83,98,370
1885-86	...	92,70,39,820	73,806,621	3,77,38,380	2,833,068	20,71,23,580
1886-87	...	92,65,36,300	84,228,177	3,82,02,570	3,165,411	19,14,95,570
1887-88	...	98,08,98,620	84,140,148	4,03,78,580	2,918,039	20,81,88,870
1888-89	...	1,00,87,97,420	95,033,610	4,13,73,120	3,230,474	21,71,40,680

* These figures are taken from the Indian Year Book. They do not quite agree with those in the budget.

† No information.

	Rs.	£	Rs.	£	Rs.
1889–90	1,02,76,11,750	98,192,391	4,21,56,080	3,327,348	21,59,40,490
1890–91	1,02,74,65,550	104,408,208	4,17,51,110	3,524,376	26,73,12,950
1891–92	1,02,69,23,170	104,404,143	4,17,15,000	3,602,349	27,50,58,410
1892–93	1,02,93,75,520	106,683,767	4,12,77,760	3,570,682	25,93,38,610
1893–94	1,05,54,60,780	114,113,792	4,20,92,060	3,687,986	24,16,55,410
1894–95	1,04,37,37,400	116,005,826	3,61,09,140	4,825,323	23,62,59,660
1895–96	1,03,78,89,280	115,903,732	3,64,00,740	3,607,832	25,35,07,520
1896–97	1,09,11,50,530	114,883,233	3,78,43,760	3,813,208	24,06,66,620
1897–98	1,11,69,56,340	123,274,680	3,87,11,060	3,940,776	21,50,87,030
1898–99	1,12,65,46,980	124,268,605	3,91,13,340	3,882,758	21,44,12,330
1899–00	1,12,47,47,010	124,144,401	3,90,56,317	3,877,026	20,81,88,234
1900–01	1,15,33,19,058	133,435,377	4,00,58,600	4,158,351	22,18,12,135
1901–02	1,16,19,13,833	134,307,090	4,03,60,615	4,213,821	20,36,22,034
1902–03	1,17,55,40,660	133,796,261	4,08,37,864	4,213,537	18,63,35,034
1903–04	1,19,42,43,035	133,045,844	4,14,90,065	4,238,273	17,13,92,234
1904–05	1,22,29,78,235	132,887,191	4,24,92,526	4,282,744	16,81,55,234
1905–06	1,26,08,10,618	146,457,439	4,38,10,365	4,715,233	16,43,82,933
1906–07	1,30,45,50.655	147,518,634	4,53,38,937	4,743,108	16,49,16,833
1907–08	1,32,82,94,955	156,481,074	4,61,66,110	5,053,632	15,23,21,733
1908–09	1,34,56,60,505	160,973,369	4,68,19,197	5,210,695	14,43,66,433
1909–10	1,36,84,33,105	170,105,911	4,76,47,428	5,530,758	15,21,19,933
1910–11	1,38,09,72,155	177,998,335	4,81,24,302	5,668,417	12,78,49,733
1911–12	1,39,96,36,205	178,486,597	4,87,76,458	5,705,597	11,73,03,533
1912–13	1,42,83,64,790	179,179,193	4,97,78,481	5,749,887	11,20,29,433
1913–14	1,45,68,55,790	177,064,757	5,07,80,519	5,693,919	10,08,74,333
1914–15	1,50,52,65,200	176,190,358	5,25,30,534	5,682,898	9,72,99,850
1915–16	1,55,45,97,700	175,171,829	5,45,29,991	5,665,349	8,82,51,650
1916–17	1,62,86,03,073	174,144,724	5,74,23,729	5,647,491	8,30,41,600
1917–18	1,70,07,88,793	236,957,575	5,13,58,187	8,827,162	......
1918–19	1,99,06,53,494	202,528,570	8,00,13,565	7,189,089	......
1919–20	2,19,44,60,981	192,631,082	9,02,09,953	6,652,195	......
1920–21	2,57,13,68,841	191,329,245	11,34,14,300	6,600,145	......
1921–22	3,85,59,35,651	205,128,482	23,10,14,981	10,732,414	......
1922–23	4,24,66,02,345	242,631,497	......	......	......
1923–24	4,26,09,18,309	263,800,652	23,84,80,653	10,719,212	......
1924–25	4,35,53,60,385	341,040,430	24,88,12,399	14,630,877	......

Before the last great war there was no specific sinking fund created for the repayment of the loans of the Government of India. Owing to the creation of a considerable amount of short term indebtedness for war purposes, both the interest and redemption policy had to be altered. The interest increased from the pre-war average of 3½ p. c. to 4 p. c. in 1915–16, to 4½ p.c. in 1916–17 and to 5 p.c. thereafter, besides some amounts borrowed on three, five or ten year bonds at 5½ p. c. The treasury bills also carried similar interest varying between 4 and 5 p. c. The larger war loans were made payable after a definite period of 30 years; and, in order to give greater security to the investor, they were made irredeemable for ten years after their floatation. In the budget statement for 1919–20, in view of the considerable deficit anticipated for 1918–19, no appropriation was made from the revenue to the sinking fund account for the discharge of British War Debt for which India had taken over the liability.

The amount of interest transferred to the railway and irrigation sections depends: firstly on the capital expenditure; secondly on the actual payment of interest on that portion of the debt which has been incurred specifically on account of the construction or purchase of railways or irrigation works; and, thirdly on the rate at which interest is charged on that portion of the debt which has not specifically been raised for the above, or other purposes. For this adjustment the usual practice is to adopt the average rate of interest actually paid for the whole of the non-specific debt in the latest year for which complete accounts are available. The result is that the rate adopted for calculating the revised estimate for a year generally differs slightly from that used for the budget estimate for the same year. This accounts for the difference between the two estimates apart from the natural difference caused by the capital expenditure.*

VII.—The Productive Debt of India

Ever since 1867, when the policy of borrowing for productive purposes was first introduced, the Government of India have remained heavy borrowers for such purposes. In the earlier years, when the railways were a losing concern, the Government policy of borrowing naturally excited some comment; and the defects in the system of accounts, bringing about a needless confusion by frequent transfers from productive to ordinary debt and *vice versa*, by meaningless distinction between ordinary and extra-ordinary outlay, gave point to the criticism. Later on, the exchange troubles led to acrimonious controversies about borrowing in England and adding to the sterling obligations thereby. Since the beginning of the present century, owing to the profits shown by the railways and irrigation works, the dispute about the wisdom of borrowing has lost much of its old interest. We have already discussed, in connection with the sections dealing with railways and irrigation, the extent to which borrowing would still have to be resorted to, as well as the justification of that policy in the past. Here we need only observe that the present attitude towards this question does not look upon borrowing as such as reprehensible, while the limit of borrowing is to be found only in the extent to which the money markets of the world would subscribe the funds. The question, finally, as to the real productivity of the object for which the amount is raised, is, since the separation of all the different branches of debt, a matter more of the real economy or benefit of each such department, *e. g.*, railways, than of the general financial policy as a whole. Once the label is attached and allowed by the authority appro-

* All loans, with the exception of those specifically raised for railways, are first treated as ordinary debt; at the end of each year the amount actually spent for productive purposes is ascertained, and is transferred, as noted above, to the head of productive debt, the remainder only being treated as ordinary or non-productive debt. Of recent years, the sums transferred from ordinary to productive debt have usually been considerably larger than the total of the loans actually raised during the year, the funds obtained by borrowing being supplemented from sources like revenne surplus and savings bank deposits. The changes in accounts introduced in 1906–07 made a more accurate distribution of capital and interest between ordinary and public works debt, which led to a more rapid reduction of the ordinary debt.

priate and responsible for the purpose, that a given object is productive, there can be no further doubt as to the treatment of debt incurred therefor. However reprehensible the policy may have been in the past, the evolution and enforcement of definite rules governing reserves and the provision of an adequate depreciation fund in such departments as the railways, make any doubt as to the productivity of the debt on such account out of the question.

But connected with this question of borrowing for productive purposes is the more difficult problem of the market for borrowing. The Company's government usually borrowed in India whether from its own servants or from the general public. But since the introduction of the guarantee system for the railways, the practice of borrowing in England on a large scale every year was started, and continues even to-day, but for the stop put to it by war conditions in England.* It was assumed that the conservatism of Indians coupled with their want of familiarity with the new undertakings, would render the prospects of borrowing in India too slender to be thought of; and on this assumption—not entirely without foundation—upto 1880 no effort seems to have been made at all for borrowing in this country. The question had, however, to be reconsidered after that date in view of the continued fall in the gold value of the rupee, and the consequent increase in the interest charge to be paid in gold on the sterling loans. In his financial statement, Sir E. Baring distinctly urged the undesirability of borrowing in England, as it would introduce a most unwelcome element of uncertainty in the finances of the country. Government were genuinely alarmed at the size of their gold obligations, and a Parliamentary Committee of 1889 authoritatively put on record the political and financial advantages of borrowing in India, if only the requisite funds could be forthcoming in the country. That body, however, recommended, that if the difference between the rates of interest in India and in England were so considerable as to afford compensation for the disadvantages attendant upon borrowing in England, loans should be raised in England to enable the Government of India to carry out their general scheme of works undertaken for public benefit.† Since that time, with the exception of two loans raised in 1885 and 1886 for £7,700,000, which were for a rate of interest sufficiently low to afford compensation for the disadvantages of borrowing in England, no loans have been raised for specifically productive purposes. Such borrowing as has since 1875 taken place in England has been for the purchase of specific railways, or for advances to railway companies which would otherwise have borrowed in England by raising debentures, or for paying off an existing sterling loan in order to reduce

* Since the accession of Sir Basil Blackett to the post of the Finance Minister in India, this practice has, at least for the time being, been stopped.

† See Welby Commission, para. 116.

the charge for interest.* These, in magnitude, have been very considerable; but the present policy of applying all revenue surplus to such works as need capital outlay and are expected to yield a net return after paying all working expenses and interest charges has saved additional borrowing in England. The Mackay Committee has recommended since 1908 further borrowing, when required, for productive purposes, in England.†

The existence of our sterling debt, and the pre-war practice of borrowing large sums in England, combined to prove to us that the possibilities of the Indian money market have not been sufficiently considered by the Government of India. Before the war the Government had estimated that in any single year more than Rs. 5 crores could not be borrowed in India with ease; and so every programme of borrowing in excess of that sum was placed before the international financiers of Europe. During the war in the very first year Rs. 6 crores were raised, without any great pressure or any considerable improvement in the rate of interest; and in the years that followed Rs. 25 to 40 crores could be raised in a single year without much difficulty, over and above considerable amounts borrowed for short periods on treasury bills. There was, indeed, evidence of undesirable pressure in some quarters, and considerable improvement in the interest allowed. But, making due allowance for these factors, the fact still remains that for any object, which could appeal to the masses of the Indian people, or in which Government takes special interest, the limits of available funds in India are by no means quite so low as was once assumed by the Government of India.‡ Again by a travesty of argumentation, it used to be maintained that the credit of the Government of India is too good, and the interest offered by them too low, to attract Indian capital. But if the

* In 1893–94 a loan of £6,000,000 had to be raised in England, as in that year the Secretary of State could not obtain the money needed for the Home Charges by the ordinary methods of sale of bills. It was estimated by the Government of India in 1895 that whenever in any single year they wanted to borrow more than 5 crores, the Indian money market would not be equal to the strain, and recourse must be had to borrowing in England. "The security" says the Welby Commission, "of the Government of India is too good to induce Indian capitalists to invest in Government stocks, for the interest offered by Government is lower than that which can be earned on good investments in the country. If money borrowed in India is to any extent found in England, the advantages of borrowing in India are proportionately neutralised, for investors here will only subscribe on terms which will, in their opinion, secure them from the fluctuations of exchange."

† It has already been observed that the distinction between rupee debt held in India and the sterling debt held in England does not necessarily correspond to the debt held by Indians and that held by Europeans. According to Mr. Jacob's calculations as placed before the Welby Commission, out of the total debt of Rs. 103 crores borrowed in India, Rs. 25 crores was held in England, Rs. 48 crores by Europeans in India, leaving only about Rs. 30 crores as held by the natives of this country. The whole of the sterling debt is held by Europeans even to-day. In 1901 it was estimated that about 58·8 per cent. of the rupee debt, including Rs. 19·29 crores held in England, was held by Europeans and about 41·2 by Indians. In 1911 the percentage held by Indians was estimated to have risen to 47. To-day, after the huge war loan operations of 1917–19, we may estimate that 60 per cent. or more must be held by Indians, leaving only 40 per cent. or less to be held by Europeans—a proportion which has probably been still more stiffened in favour of Indians in the years after the war owing to the discontinuance of the practice of borrowing in England.

‡ The fact that in 1920 the whole of the Bombay Development Loan of Rs. 9 crores was taken up exclusively by that Presidency is the latest proof of the yet untried possibilities of the Indian money-market.

security offered by the Government of India was so very good, it would be specially important to give its benefit to the people of the country in the first instance, if necessary, by raising the rate of interest; for even if the rate of interest be high, if paid in India, the economic problem would not have been quite so acute as it did become by the constant addition to the sterling debt. In any case, the fact remains that **the Government of India never seriously tried to investigate the possibilities of the Indian money market,** until compelled to do so by the world war and the post-war dislocation of the money market in London. *A fortiori*, they never attempted to develop the local possibilities such as they are. The result has been that while Government seem to have escaped a probable burden of a slightly heavier rate of interest, the industrial and commercial community has had to bear that burden of higher rate to the prejudice of the country. If the Government of India, while borrowing themselves every year, had paid any attention to the development of financial institutions like banks in India; if the banks had been enconraged to attract and collect the realisable wealth of the country for investment in productive enterprise under the patronage of the State; if the necessary degree of mobility had been imparted to the landed and industrial wealth of the country by land-mortgage or industrial banks, there is every reason to believe that the need for borrowing abroad would have been obviated to a very large degree.* Suggestions were made more than a generation ago to attract Indian capital by means, if necessary, of a British Government guarantee of the Indian public debt. But high authorities in Indian finance set their face against such an idea, and the proposal was ruled out of court.† To-day the Indian investor has learnt to appreciate the valne of industrial investment, and he needs no exterior guarantee to induce him to invest in Government securities. The danger rather is that, being unfamiliar with the wiles of the company promoter, he may be victimised, unless Government creates institutions like an industrial bank to aid him in selecting investments. If the Government should attach to the proposed Imperial Bank a branch for industrial, and another for agricultural finance, there is every reason to believe that the need for foreign borrowing would disappear altogether.‡

* See in passing, the report of the Foreign Capital Committee of 1925.

† Said Sir J. Strachey in the Financial Statement of 1880–81. "I can imagine few greater misfortunes to India than the loss of her financial independence and the acceptance by England of the financial responsibility for her Indian Empire. It would signify to India the loss of control over her own affairs in every department of her administration, the possible subordination of her interests to those of a foreign country, and the snbstitntion of ignorance for knowledge in her Government. Although some rare instances may be found in which, when there seemed to be a conflict between English and Indian interests, it may perhaps be doubted whether India has been treated with perfect fairness, there can be no question, that on the whole, the Government of India has been carried on with as honest and thorough a regard for Indian interests as if India had a separate national existence of her own.........These fortunate results have, however, been dne not only to the justice but also to the wisdom with which she has left to India a separate, financial responsibility. England has felt that it would be no kindness to take upon herself burdens which India now bears, to guarantee Indian debts, pay for Indian wars, relieve Indian famines."

‡ In the first edition of this work a proposal was pnt forward as below:—

At the present time, in view of the Exchange difficulty, the suggestion may be hazarded that the Government of India can and should undertake a policy of buying out

[*Continued on p. 408.*

VIII.—Debt Redemption

The general policy of the Government of India was to borrow for an indefinite period, in which, if repayment of the capital borrowed was ever made, it would be so at the option and the convenience of the borrower. This imitation of the English practice in regard to the funded debt of the United Kingdom admitted of indirect exceptions in the case of debt incurred in connection with the railway companies, in whose contracts provision was usually inserted to buy out the given company on the expiration of a definite term.* Owing, however, to the larger and more insistent demands of the war, and also, in part, owing to the shock to public credit caused by the in-

Concluded from p. 407.] the Indian debt held in sterling in England. Though we have paid for them at the rate of £ 1 = Rs. 15 our own sterling securities in the Gold Standard and the Paper Currency Reserves have depreciated till they are not worth half the amount in rupees that was paid for them. India, however, continues to show unmistakable signs of general prosperity, as evidenced by the heavy balance of trade in her favour; and the need for her raw materials and foodstuffs for the exhausted and reconstructing peoples of Europe is so great, that we need apprehend no reversal of these favourable conditions for some ten years or more. The heavy balance of trade in our favour, combined with the impossibility of finding sufficient gold to pay India for her excess of exports, and the appreciation of the rupee due to the scarcity of silver supplies has brought about such a state of exchange as to make our sterling indebtedness worth half the amount in rupees or less. The budget estimates for 1919-20 give our total sterling debt at £194,142,575, for which a sum of Rs. 150 crores, at the present rate of exchange would be quite sufficient. If we take our average balance of exports at £80 millions, or, deducting Home Charges at £50 millions, three years' balance would suffice to take up all our foreign indebtedness. If the British Government could be induced to mobilise the securities of the Indian Government held in England—as they did in the case of American securities held in England to meet the difficulties of the Anglo-American exchange—and sell the same in this country the present exchange difficulty would be considerably modified, if not eliminated altogether, at the same time that it would help to cancel India's sterling indebtedness. Incidentally, if the whole transaction were entrusted to the proposed Imperial Bank, it might be availed of to bring about a quiet but effective change in the standard of the country, from silver to gold.

We have already mentioned in the previous part that unknown quantities of available capital remain unused in the form of public charities, religious endowments, monastic or other boards. It would be the duty of a properly sympathetic Imperial Bank to try and attract this otherwise idle and injurious wealth for purposes of material improvement. If the Bank takes the matter in hand it can realise the ideal much more easily than the necessarily high handed action of the Government.

* * * * * * *

This was written in February 1920. Since then the ill-advised haste of the Government of India to give effect to the recommendations of the Currency Committee, and their mad venture for the sale of Reverse Councils has entirely reversed the situation. We still feel convinced there is no occasion to fear intense trade depression in this country, so long at least as the war-wasted regions of Europe are not fully reconstructed, if only the Government of India would give us an honest currency system, if only we could have our foreign exchanges immune from the amateur meddling of incompetent financiers.

* We reserve for the next part an account of the War Loans during 1915-20; but here we may mention the scheme of conversion adopted by the Governmet in 1916. In the past most of the conversion schemes were undertaken with a view to reduce the interest charge; and so, whenever possible, Government offered the alternative of paying off the debt or issuing fresh stock at a lower rate. In the War period, however, the higher rate offered for the War loans required some corresponding facilities for the conversion of the earlier debt carrying lower interest. Without undertaking the obligation of converting the whole of their 3½ p. c. debt into one of 4 p. c., the Government in 1916 offered to the subscribers to the new loan, carrying interest at 4 p. c. and redeemable in 10 or 15 years at the option of the Government, an option to convert an equivalent amount of 3½ p. c. or 3 p. c., at a rate to be fixed into 4 p. c. redeemable loan, the offer to remain open for the two following years in regard to any public borrowing by them. The rate for 3½ p. c. paper was fixed at 74. The great difficulty in this conversion scheme was that it was restricted only to the subscribers to the new Loan, and for an amount equal to the figure subscribed towards the new Loan. In the subsequent Loans similar facilities for conversion were granted.

cessant inflation in impecunious countries, suggestions like those regarding a capital levy or a total repudiation of public indebtedness—suggestions for some definite policy for the redemption of the public debt of India became more frequent after 1920; and Government tried to meet the wishes of their actual or potential creditors by instituting a specific sinking fund against their 5 per cent. War Loan of 1½ per cent. of the total amount outstanding; and later still, in 1921-22, by making an *ad hoc* grant of Rs. 80 lakhs towards a further strengthening of the public credit as a sort of an additional sinking fund for the repayment of the capital borrowed. The rapid depreciation of the old 3 per cent and 3½ per cent securities of the Government of India, which, before the war, had ranked on a par with the English Gilt-Edged Securities, and formed the most approved investments for trust and charity funds of minors, widows or religious and other bodies of public utility, could not however be stemmed by such unconsidered and *ad hoc* measures. It was pointed out, and perfectly reasonably, that the special protection afforded to a particular class of Government creditors was unfair and invidious, as all had lent on the collective and common security of the Government credit; and further, that while the lenders in the war period knew perfectly well that the monies lent by them were to be spent in powder and shot, leaving nothing substantial behind them in the form of assets, those who had invested in the old 3 per cent. or 3½ per cent. securities of the Indian Government were lending for definite works of commercial profitability. In spite, however, of such criticism, no definite policy of providing for the gradual repayment of at least the unproductive public debt of India was formulated, until the present finance minister, Sir Basil Blackett, took charge of the finance portfolio in the Government of India. Sir Basil will go down to posterity as a great Finance Minister, though not all his achievements have commanded an equal confidence in India. Certainly, among the numerous contributions of this financier, none deserves to rank so high as the definite scheme of sinking fund elaborated by him first in his budget speech of 1924.* Reviewing the entire position in respect of the public debt of the country, as on 31st March 1924, he found the gross total of the public debt to be 967·18 crores of rupees, including 49·65 crores of the Treasury Bills in the Paper Currency Reserve, and converting the sterling portion of the public

* "So long as we have a considerable annual programme of new capital any provision for sinking funds operates, not to reduce the net total of our debt, but to reduce the amount of it which is unproductive, and the amount provided becomes in effect a contribution out of revenue towards productive capital expenditure. Instead, therefore, of speaking of such a provision by the convenient but misleading title of a sinking fund, it is preferable to describe it as a contribution out of revenue for reduction or avoidance of debt." (Budget Speech 1924 para. 29.)

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debt at Rs. 15=£1.* Analysing the total debt charge further, he found the productive debt of the Central Government aggregated 578'39 crores, unproductive debt Rs. 228'45 crores, provincial debt 98'81 crores, and discount on loans 11'88 crores,—the last being treated as an interest liability, which is paid off gradually by appropriations from revenue. Against this the total amount provided was the 1½ per cent. contribution by way of a

*The Debt position as on March 31, 1926, given in the budget speech of 1926 :—

Statement showing the Debt of India, outstanding on the 31st March 1923, 31st March 1924, 31st March 1925 and 31st March 1926.

—	31st March 1923.	31st March 1924.	31st March 1925. (In crores of rupees)	31st March 1926.
In India:				
Loans	339'83	358'81	370'38	368'35
Treasury Bills in the hands of the public	21'59	2'12	...	...
Treasury Bills in the Paper Currency Reserve	49'65	49'65	49'65	49'65
Other Obligations—				
Post Office Savings Banks ...	23'20	24'79	25'64	27'48
Cash Certificates	3'13	8'42	13'12	19'52
Provident Funds, etc.	36'17	39'00	42'39	46'27
Total Loans, etc. ...	411'07	410'58	420'03	418'00
Total Other Obligations ...	62'50	72'21	81'15	93'27
Total in India ...	473'57	482'79	501'18	511'27
In England:			(In millions of £)	
Loans...	222'92	244'53	263'39	266'43
War Contribution	19'71	19'27	18'81	18'32
Capital value of liabilities undergoing redemption by way of terminable railway annuities	61'31	60'10	58'84	57'53
Provident Funds, etc.	'04	'13	'16	'20
Total in England ...	303'98	324'03	341'20	342'48
			(In crores of rupees)	
Equivalent at 1*s*. 6*d*. to the Rupee	405'31	432'04	454'93	456'64
Total Debt ...	878'88	914'83	956'11	967'91
Productive { for Central Govt. ...	536'65	557'09	600'05	627'71
Productive { for Provinces ...	87'49	97'56	106'43	114'39
Total Productive ...	624'14	654'65	706'48	742'10
Unproductive ...	254'74	260'18	249'63	225'81
Total ...	878'88	914'83	956'11	967'91

depreciation fund on the 5 per cent. Indian War Loan of 1929-47 (Rs. 41 lakhs) and an eqnal contribution on the 1945-55, 5 per cent. Tax-free loan (Rs. 33 lakhs) plns the *ad hoc* contribution of 80 lakhs voted since 1921-22. In England the war contribution of £ 442,900 represented the annnal instalment for the principal of the war contribntion, while the railway annnities and sinking funds amonnted to £1,544,300, or an aggregate provision, expressed in rupees, of 4·52 crores. Leaving ont the railway annnities, and analysing the constituents of the ordinary unproductive debt, into the portion dne to bndget deficits, (98 crores) and that due to New Delhi (9·85 crores) he found the balance of 120·60 crores to be the real war debt of India.

The period, right and proper, within which the provision made shonld accumulate at compound interest so fast as to pay off the debt at the end thereof, would necessarily differ in these several cases. Taking everything into consideration, and allowing for the existing obligatory provision in respect of the war loans and war contribntion, Sir Basil came to the conclusion that "a figure of 4 crores per annum would be an adequate provision to include in our budget expenditure for the next five years for dealing with our existing debt."* This, however, was independent of any further debt that might in fnture have to be incurred. "On the assumption, which I hope will prove correct, that snch debt will be entirely for productive purposes, the annual addition might be a sum equal to one-eightieth of the net addition to our debt during the year."

On this basis, a resolution of the Government of India, dated 9th December 1924, laid down a definite scheme of debt redemption, which was to be operative in the first instance for five years, and to be founded on this resolution of the Government of India, thongh the finance member would have liked to make the scheme a statutory obligation. The essence of the scheme was: "For a period of five years in the first instance, the annual provision for the reduction or avoidance of debt to be charged against annual revenues is fixed at 4 crores, *plus* one-eightieth of the excess of the debt ontstanding at the end of each year over that outstanding on the 31st of March, 1923."† This suggestion was criticised in the Assembly in the February following; bnt the critics practically waived their point on the Finance Minister promising to afford to every member of the Honse whatever information he desired on the subject. Judged as a purely financial measure, with due regard to the state of Indian finance at the moment, the scheme might give rise to criticism that provision is made, without absolute necessity, at the cost of a tax-payer, who is probably the most heavily taxed individual in the world in proportion to his ability, and with reference to the real benefit received by him from the services rendered by the State out of the proceeds of such revenues. That a surplus of 4 crores in a total revenue budget of 125 crores is a considerable addition cannot be denied. The equilibrium between the revenue and expenditure in the Indian budget is so far dne

* Para. 36, Budget Speech, 1924.

† Para. 33, Budget Speech, 1925.

mainly to the appreciation of the rupee by artificial scarcity; and so the guarantee against future indebtedness of an unproductive character is by no means so substantial as might be desired. At the same time, it cannot but be admitted to be a most perilous condition of the public finance in a country that no provision or insufficient provision is made for the reduction or avoidance, if not the repayment, of its public debt. Short of raising the basic question regarding the equity of saddling India with that portion of her unproductive debt, which has been incurred or occasioned by England's imperialistic ambitions or complications; short, that is, of replying to any one who demands the repudiation, annulment or transfer of this debt to Britain,* the scheme of Sir Basil cannot but be welcomed by everyone desiring a strengthening of India's public credit. India is a habitual and considerable borrower; and whether she borrows at home or abroad, her creditors must not be allowed to feel,—at least while we implicitly accept the existing basis and structure of our economic society,—that her Government would fail to honour their obligations. It may be that the bulk of the Indian public debt has been incurred without the consent of the people of India; it may be that the proceeds of that debt,—even of the productive portion,—have been laid out on objects or in ways not strictly or exclusively in the true interests of India. But these considerations cannot be allowed to impeach the intrinsic merits of a scheme, which definitely buttresses India's national credit in a manner least injurious, even if it be not conceded to be the most economical. This is a common scheme for all categories of our debt; and so the old invidious distinction between the several loans is finally and rightly dispensed with. It is, moreover, indirectly a reserve against future contingencies; for inasmuch as it helps to husband the capital resources of the country, it cannot but result in Government obtaining all the help they need in a moment of emergency, such as that of a great war or a severe famine. The only criticism, which, in our opinion, can be justly levelled against this scheme, concerns rather the general economic policy for the national development of India. Public credit, or rather public borrowing, can be easily transformed into and worked as a most powerful stimulus to foster those habits of investment which have so far been regarded as all but unknown in this country. The fact that for the present borrowing outside India is stopped is perhaps the only item in the present policy which may be justly regarded as helping to develop the use of credit in India; otherwise this great virgin field lies all but unexplored, with all the dangers implied therein to the industrial development of the country for want of capital.

IX.—Forms of Debt and Securities

The existing rupee loans are of two kinds:—(*a*) Those which the Government has undertaken not to repay before a certain fixed date, but

* The Indian National Congress in its Gaya Session of 1922, passed a resolution disclaiming any responsibility for the debt incurred after that date. It was, however, more in the nature of a warning than a serious declaration of national policy as conceived by the popular Congress.

which are repayable at the option of the Government at any time after that date, after giving notice; and (*b*) those which Government has undertaken to repay (*i*) either on a certain fixed date, or (*ii*) not earlier than a certain fixed date and not later than another fixed date.

There are also in existence a few special loans, such as certain railway loans taken up by 3 Indian chiefs and a special 4 per cent. loan taken up by the Maharaja of Gwalior in 1887, amounting in all to a little over Rs. 4 crores.

The sterling debt, similarly, is in the form of stock or debenture stock or bonds, redeemable, but not until a given date, and then, too, on the prescribed notice usually of one year.

The rest of the Indian sterling debt consists of so much of India's war contribution as has not been liquidated from the proceeds of the war loans of 1917, 1918 and 1919.

The three main forms in which the rupee debt is held are: (*i*) stock or book debt; (*ii*) bearer bonds; and (*iii*) promissory notes. When the debt is held in the form of stock the owner is given a certificate to the effect that he has been registered in the books of the public debt office as the proprietor of a certain amount of Government stock. This certificate is known as a **stock certificate** and hence the name of the debt. In the second case, the **bearer bond** certifies that the bearer is entitled to a certain sum of rupees in respect of the loans to which the bond relates. A **promissory note** cantains a promise by the Governor-General in Council, on behalf of the Secretary of State for India to pay a certain person a specified sum on a specified date or after certain notice, according to the terms of the particular loan to which the promissory note relates, and to pay interest thereon at certain rates half-yearly on certain specified dates. Each of the above forms of security is convertible by the holder into either of the above two.

During the war two new forms of securities have been created. **Treasury bills**, when issued, are in respect of temporary borrowing by the Government of India and usually have a currency of from 3 to 12 months. They are issued in the first instance at a discount, equivalent to the interest on the face value of the bill for the period for which the bill is issued, and are at maturity paid their full face value, the difference representing the yield to the investor. The lowest denomination issued is for Rs. 5,000 a sum suitable for banks, shroffs and other large merchants, but too large for the ordinary Indian investor. As a rule on maturity the old bills may be exchanged for new ones of like amount, unless the holder desires payment in cash. The treasury bill sales and payments were managed by the presidency banks. On the other hand the Post Office cash certificates* are specially intended to facilitate the investment of small amounts and

* Lord Cromer tried to attract the small investor by cash notes as early as 1882, but without success.

to encourage saving among people of small incomes. They have a currency of 5 years, on the expiry of which they are to be repaid. As they are issued for an amount less than their face value, the difference constitutes the profit to the investor. They are issued in the denominations of Rs. 10, 20, 50, 100 and 500 on payment of Rs. 7-12, 15-8, 38-12, 77-8 and 387-8 respectively. The maximum amount of certificates that can be held by any individual is Rs. 10,000 nominal value. The investor's money, however, is not locked up for the full term of 5 years. He can, if he wishes, obtain payment at any time during the currency of the certificate, and in that case receive an amount which according to the time he has held the certificate, gradually increases at compound interest from the original purchase price up to the full face value of the certificate at the end of five years. The profit to the investor is free from income tax, and the certificates are sold at all Post Offices all the year round. Of late years these have grown enormously in popularity, though in 1926 the interest was slightly lowered. If the proposal of the Hilton-Young Commission for the issue of such certifications in gold of the denominations of 1 tola or multiples thereof is adopted, the popularity of the certificate will increase still further in spite of restrictions as to the amount that can be held by any individual—Rs, 10,000.

PART V

War Finance in India

I.—The Nature of War Costs

The proper principles which ought to govern the financing of a big war have never been clearly worked out in this country. The unfortunate practice, so common under the Company's regime, of meeting all extraordinary expenditure by borrowing was no doubt modified by the first finance ministers of India under the crown. But in every case of sudden emergency caused by war, or famine, the later finance ministers of India have had recourse to borrowing, perhaps because they exaggerated the political danger of additional taxation, possibly also because they were naturally unwilling to invite too close a criticism of their methods of financing, as they were afraid their objects would not stand a very close criticism. During the last great war, the magnitude of the struggle, as well as Indians being only directly involved in it, made the perception of the true nature of war-financing still more difficult. We in India were not suffering from any of those evils of actual warfare within a country, such as destruction of private property under stress of military operations, which escape being included in the account of war costs as represented by the money spent upon the conduct of the war, but which seriously impair the productive capacity of the countries thus suffering. To a certain extent India did suffer from a diversion of her trade owing to war restrictions and the shortage of freight; but this loss was more than counter-balanced by the gain attended upon high prices and increasing quantities of her exports demanded by the belligerents.* We had not to face that other serious factor in the true war costs—which nevertheless is not accounted for in the financial figures recorded by the exchequer—a conscription of our labour force for war purposes, and the consequent manning of the industries by relatively inefficient labour, to the grave prejudice of the country's wealth. If "the real costs of the war to the nation consist, not in the things that are actually absorbed in the war, but in the things—including the leisure of some of its work—people—which the country has to do without in order that these things may be provided,"† it must be admitted that the effects of the war upon India have been slight and indirect.

* The trade returns, however, show that the increase in the prices of imports was much greater than that of exports. The quantities exported also fell off. The gain is, therefore, not quite so large in reality as it appears by a superficial study of values only in the trade returns.

† Pigou, *Economy and Finance of the War*, p. 14.

II.—A Brief Review of Indian Financial Conditions in 1915-19

The financial statement of 1915-16 was the first, after nearly forty years, to be prepared under the war conditions of a very serious kind. Though in the first year India was not directly concerned in fighting, beyond the despatch of an expeditionary force to France, the financial system of India was not immune from the effects of the world conditions. The Indian currency system, for example, required the closest connection with the central money market of the world; while, for great projects of internal development, India relied upon borrowing in the same centre. The trade of India, moreover, was in increasing quantities with the whole world, which must, therefore, inevitably suffer by the unavoidable restrictions of war-time. The out-break of the war, however, found Indian finance in a remarkably strong situation. The treasury balances in India and in England were a million and a half sterling in excess of the estimate. The agricultural outlook was favourable, and the banks were well provided with funds. Hence when the war first broke out, the one problem that the Government of India had to face was to support exchange. Those desiring to remit their capital to England found that the dislocation of trade, consequent upon the depredations of the German cruiser Emden, and the fright taken by the Indian middlemen, had left exchange so unsupported by trade balance that they could not remit at anything like par rates without the intervention of the Government. In accordance with the recommendations of the Chamberlain Commission on Indian currency and finance, the Government offered to sell reverse bills on the Secretary of State for India in Council, at a specified minimum rate, to the extent of £1,000,000 a week. At the cost of about £8·7 millions sold between August 1914 and March 1915 the Government managed to keep exchange steady. These bills were met in England by the balance in the gold standard reserve. At home in India there was a rush (*a*) for gold coins, and (*b*) on the savings bank deposits, as well as (*c*) currency notes. Nearly £1·8 millions were withdrawn before the Government intervened to stop further drain on their very slender stock of gold, and so refused any gold for internal purposes. Those who desired a withdrawal of the savings banks deposits or conversion of currency notes were given every facility, and the total withdrawals amounted to £7 millions, while the diminution of the note circulation was about 7 crores. But for these difficulties the first year of the war brought no serious anxieties. India had not to proclaim any moratorium or suspension of payments, nor afford any extravagant *carte blanche* to banks or other institutions, as they had to do in England.

The Government of India took their cue from the Home Government in believing that the war would be of short duration, and therefore made no permanent provision for the deficit caused thereby. The budget for 1915-16 estimated an aggregate excess of expenditure over income of £3·8 millions, of which £2·8 millions was on account of the Imperial Government, while the rest was accounted for by the local governments being allowed to overdraw to the extent of £1 million their balances with the Government of

India. The ordinary revenue and expenditure accounts were left substantially unchanged. The imperial deficit of £2·1 millions and the provincial deficit of £1 million the railway programme reduced to £8 millions and irrigation programme of £1·1 million, purchase £1 million debt in connection with the East Indian Railway account, and a provision of another million for a possible withdrawal on account of the saving bank deposits, the £7 million of India bills raised in 1914 by the Secretary of State and repayment of the loan of £7 million from the gold standard reserve,—gave the total of £28½ million obligations. Against these the Government decided to renew the £14 million of temporary debt in England (£7 million) and India; a fresh loan of £6·5 in England, either directly by the Secretary of State, or through the agency of the railway companies working certain State Lines; an incursion on the cash balances for £4·5 million and on the famine insurance grant for £5 million; and a rupee loan for £3 million in India. With these provisions the necessity for fresh taxation was avoided,* and the pre-war standard of ordinary expenditure was maintained at the cost of slight reduction in the expenditure on capital account.

These calculations, however, were destined to be considerably upset by the prolongation of the war all throughout the financial year 1915–16, and the absence of any reasonable prospect at the commencement of the year 1916–17 of its early termination. The proposed borrowing of £6·5 million in England, for example, could not be carried out, the Secretary of State succeeding in raising only £3·1 million. Rigid economy in all departments of the Government, except the army, had to be ordered; capital expenditure had to be reduced on railways from £8 million to £4·9 million, and on irrigation works from £1·1 million to £·9 million. In spite of trade depression at first, the rise in prices led to a considerable revival later on; and though the budget revenues rose from £80·4 to £82·62 million, the expenditure rose from £84·435 million to £85·264 million. The deficit, therefore, was £2·644 million; and if the same basis of revenues was continued for 1916–17, the loss at the end of 1916–17 would be £2·96 million in addition. It was evident that such a system could not be tolerated in view of the fact that there was no probability of the war coming to a close during 1916–17, while there was temporary debt of considerable dimensions. It was, therefore, decided to add to the existing taxation so as to increase the revenues by £3·6† million as against an estimated imperial deficit of £2·6

* Said Sir William Meyer in the financial statement: "We do not propose to raise any money by increased taxation on this occasion. We should not hesitate to do so to meet a deficiency in revenue which promised to be of a more or less abiding character. But the present circumstances are altogether peculiar. We know that ordinarily, we can count on surpluses. India, too, has a very small unproductive debt; and, with trade conditions depressed, and the present abnormal rise in food prices, we have come to the conclusion that we ought not to add to existing taxation unless it is absolutely necessary." (Financial Statement 1915–16, para. 54.)

† This sum was made up of:—

	Million pounds.
(1) Customs and consequential changes in excise ...	£ 2·15
(2) Salt duty increase	£ 0·6
(3) Income tax changes	£ 0·9
...	£ 3·65

million leaving a surplus of a little over a million sterling. Against this must be set off an estimated provincial deficit of £'4 million, railway capital outlay of £3'0 million, irrigation £'9 million, Delhi £'3 million, and the discharge of debt £2'0 million, or a total of £6'6 million in excess liabilities. Allowing for the budget surplus, there would still be an excess of liability over assets of about £5'5 million, which it was proposed to meet by a fresh rupee loan of £4'3 million, use of cash balances to the extent of £'3 million, and unfunded debt to a like extent, a deduction of £'2 million from the famine insurance grant, and £'4 million from special war receipts, thus bringing about an equilibrium.

From the beginning of the calendar year 1917, the situation had changed in two important respects, affecting most vitally the Indian financial system as a whole. The rainfall had been extraordinarily good in 1916; and there was continued demand, even at increasing prices, of India's exports by the belligerents. The Government of India were incurring heavy obligations on behalf of the Home Government by financing their purchases and other war services; instead, therefore, of the Government of India being debtors to England in respect of the Home charges of about £20 million annually, they were actually creditors of very large amounts in respect of these obligations.* The old methods of meeting India's usually favourable balance of trade were now either unavailable or inadequate, especially as the balance was getting heavier every month, while the export of gold from other countries to India was impossible as much by war restrictions, as by the dangers attending transport. After the first slight rush for reverse councils, trade conditions had so asserted themselves that all throughout the year 1916 there was a continued and increasing demand for council bills on the Government of India to be paid in rupees. The price of silver was gradually improving; and, in spite of heavy coinage operations, the Government of India were feeling the strain on their rupee cash balances. In November 1916 it was clear that the treasury could not meet this drain, and so a notification had to be issued reducing the sale of bills to Rs. 80 lakhs a week, subsequently lowered to 60 lakhs. In January 1917 the exchange was raised to 1s. 5*d*. the rupee. In the July following, Government took entire control of all imports of gold and silver to conserve the stock of specie; while instructions were issued to exchange banks not to finance exports except those which were strictly necessary for the prosecution of the war by preference, and for the rest demand the fullest cover. Trade was thus severely handicapped by the scarcity of remittance in the form of bills or bullion. Altogether in this respect the situation was so completely altered that instead of the expected demand for reverse bills during a crisis, there was

* The recoverable expenditure on account of the Home Government was, in round figures, £19 million in 1915–16, £38'5 million in 1916–17, £73'3 million in 1917–18, and £80'0 million in 1918–19. The same was estimated at £86'0 million in 1919–20. The marginal table shows the balance of trade and councils sold. The figures are in crores of rupees, and in the first case, show a net excess of exports of merchandise over imports.

		Trade Balance	Council sold
1915–16	...	61'31	30'36
1916–17	...	87'06	49'04
1917–18	...	80'54	50'63
1918–19	...	61'87	28'65

a continuous heavy demand for Councils so great that Government had to adopt every measure they could think of to ease the strain and maintain the exchange at the customary rate.

The other important change was in the case of revenue and expenditure of the Government. The budget estimate for 1916–17 was for £86·5 million revenues, and £86·027 expenditure ; in the revised estimate it was found that the revenues would amount to £96·7 million, and the ordinary expenditure to £89·45 million.* The continued prosperity in trade, combined with the increased prices, had caused a boom in the railway revenues, which accounted for £4 million excess, the customs which showed an excess over estimate of £·65 million, and the income tax showing an excess over estimate of £·35 million. The increase in expenditure was largely due to increased army charges. On capital account the estimated expenditure of £6·6 million was increased to £15·8 million, chiefly on account of the repayment of debt which was budgeted for at £2 million, but which eventually amounted to £11·6 millions.

In the next year 1917–18 the features noticed in the preceding year were intensified, but no new factor entered materially to affect the situation, with the exception of the decision to make a contribution of £100 million towards the war cost of the United Kingdom. This decision was arrived at in 1917, and was incorporated in the budget for 1917–18, leading to a very active, in some cases undesirably active, campaign for subscriptions to the war loan. The revenue for 1917–18 was estimated at £98·8 million; it actually amounted to £110·4 million. The expenditure had been budgeted at £98·8 million ; it actually amounted to £102·3 million. There was thus a surplus of £6 million odd, which was considered sufficient for all needs, and so no additional taxation was imposed. The principal items in the increase of revenues were: railways, salt, income tax and customs, while the bulk of the increase in expenditure was acconnted for as usual by the army. The only point of interest in the 1917–18 financial history was in connection with ways and means. The ordinary transactions under this head amount to between £20 and £30 million. Owing to the receipts under the War Loan, and the expenditure incurred by our Government on account of the Home Government, they amounted to £111 million. The war loan proceeds provided £36·5 million, treasury bills £30 million, revenue excess £31·5 million, coinage £13 million. The ways and means section continued to occasion anxiety also in the last and the closing year of the war during which £78 million had to be provided for, of which it was proposed to meet £22·1 million out of revenues, £20 million from loans, £13 million

* All the war years furnish one more proof of the old criticism, that the estimates of the Government of India display anything but a good financial workmanship. The excuse that Indian finance "is a gamble in rains and railways" has now very little justification, particularly as the items showing the greatest variations are not affected by rains very much. The principle of cautious budgeting seemed to be carried to an unreasonable excess, until the pendulum swung back to the other extreme in the years following the war, when undue optimism in estimates became the invariable rule.

from specie coinage, £16 million from further investment in the paper currency reserve, and £5 million, from balances. The war loan of 1917-18 had realised Rs. 47 crores, or £31·4 million out of the promised £100 million, so in the closing year 1918-19 the loan programme was continued with slight modifications. In September 1918 it was resolved to make a further contribution of £45 million, under certain restrictions.

III.—Analysis of Revenue and Expenditure 1914-15 to 1918-19.

After this brief review of the principal features of the War period financing in India, we may next proceed to a more detailed study of the revenues and expenditure.

The following table gives totals of Revenue and Expenditure.

(In millions sterling)

Revenue.	1914-15	1915-16	1916-17	1917-18	1918-19
Accounts	81·15	84·41	98·05	112·66	...
Revised Estimates	80·15	82·50	96·75	111·40	121·5
Budget Estimates	85·07	80·34	82·55	98·85	108·34
Expenditure.					
Accounts	82·94	85·60	90·57	104·57	...
Revised Estimates	85·11	85·26	89·45	89·45	125·85
Budget Estimates	87·02	84·18	85·51	93·81	106·14

If we compare these figures to the pre-war standard of 1913-14, we find that the total revenues increased from £85·20 million to £120 million, or a net increase of 42 per cent. compared to the increased demands upon the revenues during the war in Countries like England, this increase seems to be insignificant.* The expenditure increased from £ 82·89 to £ 125 million or over 50 per cent. If we compare the details, the following tables show the increases in the principal sources of revenue and the chief heads of expenditure between 1913-1918.

Revenue Accounts

(In thousands sterling.)

Sources.	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19	Increase.
Land Revenue ...	21,391	21,221	22,031	22,041	21,607	20,945	−2%
Opium	1,624	1,572	1,913	3,160	3,078	3,229	+180%
Salt	3,445	3,910	3,647	4,826	5,499	4,176	+19·5%
Stamps...	5,318	5,082	5,433	5,776	5,727	5,896	+11%
Excise	8,894	8,856	8,632	9,215	10,161	11,547	+30%
Customs	7,558	6,347	5,873	8,659	11,036	12,603	+·67%
Assessed Taxes ...	1,950	2,036	2,090	3,773	6,308	7,300	+375%
Forests...	2,229	1,980	2,074	2,470	2,731	2,910	+30%
Other heads	1,333	1,095	1,128	1,128	1,125	1,154	+12%
Interest	1,352	1,023	1,096	1,136	2,170	4,020	+300%
Posts & Telegraph ...	3,598	3,596	3,787	4,174	4,616	5,323	+30%
Mint	339	69	102	690	517	1,716	+500%
Civil Department Receipts	1,408	1,505	1,579	1,739	1,935	2,086	+50%
Miscellaneous	772	677	679	847	4,868	5,771	+750%
Railways : net... ...	17,625	15,799	17,977	21,313	24,141	25,347	+50%
Irrigation	4,713	4,680	4,779	5,155	5,063	5,402	+15%
Other P. W.	298	288	304	309	323	332	+11%
Mil. Receipts... ...	1,369	1,374	1,241	1,575	1,720	1,713	+25%
Total ...	85,207	81,157	85,602	98,050	112,662	125,851	·4

* The figures for 1918-19 are the revised estimates for that year, which in the accounts show appreciable improvement in the important heads. For all other years the figures are the actuals or accounts for that year.

On the Revenue side we find, taking each item, the greatest proportionate increase as shown by the table in the margin. Of these, the receipts from the mint and miscellaneous sources are extraordinary, and cannot be relied npon in permanent finance. Quantitatively also they are insignificant. Opium is inflated by high prices; but as the Chinese monopoly revenue has practically ceased, this may probably be taken as a more permanent increase. The greatest quantitative increase is under the heads of Railways, Cnstoms, Excise, Income Taxes. Of the increase of £40·644 million in the revenues, railways contributed 7·722 or nearly 19 per cent.; Cnstoms continued 5·045 or 12 per cent.; Income Tax 5·350 or 13 per cent.; Excise 2·653 or 6 per cent.; Interest 2·668 or 6 per cent.; Opinm 1·605 or 4 per cent.; Posts and Telegraphs 1·725 or 4·25 per cent. and the rest 35·75 per cent. by other heads. If we distinguish between tax-revenues and revenues from commercial services, we find that £70·467 million out of £125·851 million was contribnted by taxes, inclnding land revenue, or 56 per cent. of the total. (If we exclude land revenue it would be 40 per cent. of the total.) The commercial services of Opium, Railways, Irrigation, Post Office, Forests, other Public Works, Interest and Mint was £48·279 or 38·5 per cent. of the total, leaving to be made up only 11·5 per cent. by the remaining items. In the pre-war days the tax revenues amounted to £48·556 million ont of £85·207 million, or 57 per cent. of the total; if we exclude the land revenue the proportion would fall to a little above 33 per cent. The commercial services earned £31·480 million or 37 per cent. of the total, leaving 16 per cent. to be made np by the other remaining sources. As between direct and indirect taxes, before the war the former amounted to 2·28 per cent. and the latter 30 per cent. of the total. In 1918-19 the proportions respectively were: 5·87 and 27 per cent.

Miscellaneous	750%
Mint	500%
Income-Tax	375%
Interest	300%
Opium	100%
Railways	50%
Civ. Dept.	50%
Excise	30%
Forests	30%
Posts, &c.	30%
Customs	67%
Mil. Rec.	25%

On the side of the expenditure, the following table shows the principal items and their increases.

Heads.	1913-14 £	1914-15 £	1915-16 £	1916-17 £	1917-18 £	1918-19 £ R. E.	Increase.
Direct demands...	9,274	8,939	9,467	9,328	9,854	11,676	25·8%
Interest	1,515	1,191	1,190	1,174	7,328	7,733	510%
Posts & Tel. ...	3,272	3,257	3,149	3,441	3,567	4,116	25·2%
Mint	132	141	89	167	167	267	100%
Civ. Dept. ...	17,934	18,910	18,868	19,081	20,855	24,474	37%
Mis. Civ. ...	5,403	5,311	5,128	5,414	5,918	6,130	13·4%
Famine Rlf. ...	1,000	1,000	1,000	1,000	1,000	1,000	...
Railways, Interest, &c.	12,836	13,641	13,901	13,832	14,227	14,154	10·28%
Irrigation ...	3,532	3,754	3,721	3,549	3,784	3,988	12·5%
Other P. W. ...	7,010	7,177	5,451	4,618	5,048	5,596	−20%
Military	21,265	21,809	23,503	26,566	30,768	45,639	114%
Prov. Adjustment	282	2,190	131	2,397	2,059	1,073	...
Total ...	82,894	82,942	85,602	90,572	104,575	125,851	52·55%

In these figures, quantitatively the most considerable increase was under the head of military services which was practically more than doubled. It must be noted, however, that the figures for 1918-19 contain £12·700 million for further assistance from Indian revenues towards the cost of military forces raised in India in pursuance of the resolution of September 1918. Making allowance for that, we still have £33·041 million or an increase over 1913-14 basis of 55 per cent. According to section 22 of the Government of India Act, the application of the revenues of India to defray the expenses of any military operations beyond the frontiers of India was forbidden. By law, therefore, India was not bound to bear any portion of the cost of her troops dispatched to assist the Empire's forces in the European conflict. But under a special resolution of Parliament passed early in the war, India had undertaken to defray the ordinary charges of her forces sent to France and other theatres of the war. This explains the very considerable addition in the expenditure under the head of Military Services. Next comes the increase in the item of Interest on the ordinary, unproductive debt, which shows proportionately the biggest increase. The heavy loans raised during the war arrested the pre-war process of the steady reduction in the unproductive debt charge, and, instead, increased that charge more than five times. It was in consequence of the decision of March 1917 to make a contribution of £100 million to the war by borrowed funds, over and above meeting the expenses of the increased Indian army for the service of the Empire, that the unproductive interest charge was raised so much. There is next an increase of over £7·25 million in the combined items of salaries and expenses of civil departments and miscellaneous civil charges of proportionately 31·10 per cent. over the pre-war basis. During the war years proper, 1914-1918, there were enforced rigid economies in all departments, and there was not, therefore, the gradual increase under this head conformable to the increase under the head of Military Services. It was rather the result of a sudden spurt, after war economies, in the first peace year of departmental increases and greater salaries that explains the increase under this item.* The increases under the head of commercial services are the result of natural expansion, which would probably be much larger in proportion as the necessity for war economy becomes slighter. It is alleged, not quite without reason, that these services were practically starved during the war, and that consequently in the years immediately following the close of the war, there would be and there were very large demands on the public revenues on these accounts in order to make up for the wastage and depreciation of the war period, and to provide for the resumption of the interrupted, pre-war programmes of expansion. There is, however, room for criticism against the

* It is considered by many people in India, competent to judge in the matter, that the new constitutional reforms are going to prove very costly. If the English officer loses that sense of responsibility and the spur to economy, which has hitherto distinguished some of India's better known finance ministers, and the new Indian element is lacking in the necessary experience, these fears would be very largely justified. The only consolation is that if only the out-lay is in the right direction, the initial increases might in the long run prove unimportant. The sense of close scrutiny will be borne along with the sense of public responsibility to the people. (1st Edition)

pre-war policy in these branches of public expenditure. We have discussed in the preceding part, in the appropriate sections, the programmes we consider reasonable, as well as the possibilities of further expansion. The increases under other items are insignificant from the stand-point of their permanent effect upon the budget.

IV.—History and Details of War-Taxation.

In introducing the first war budget it was considered that as the emergency, though heavy, was of a temporary character, the anticipated deficit should be met out of temporary and permanent borrowing. In the next budget, however, the Government felt that in view of the impossibility of raising any great loans in London, and the probability of very heavy demands upon the revenues on the termination of the war, it was necessary to make provision for additional revenues.* The sources of revenue selected for manipulation to serve the war needs were briefly: Customs, Salt and Income Tax (*a*). The customs changes, expected to yield £2·1 million, took the shape of (i) an increase in the general tariff from 5 per cent. to 7½ per cent. *ad valorem*, estimated to yield £ ·420 million more, making allowance for the decrease in consumption consequent upon higher rates. In the case of sugar, in view of the need to protect the local industry, the rate of import duty was fixed at 10 per cent., and the change was estimated to yield another £ ·4 million. (ii) The free list was next curtailed very considerably by statute, in place of the old, wide free list based upon positive law and executive concessions. Gold coin and bullion, the current Indian coins, certain essential materials for industry and agriculture, and a few other specified articles, like live stock, works of art, books, uniforms, quinine and anti-plague serum, were to be the most important items in the new restricted free list. (iii) Some articles, taken from the old free list, were to be taxed 2½ per cent. *ad valorem*, *e.g.*, grain and pulse, tea chests and lead sheets for their manufacture, printing and lithographic material, machinery other than that required for cotton spinning and weaving, railway material, and ships. A quantitative duty of 8 as. a ton on coal, coke and fuel was estimated to approximate also to 2½ per cent. *ad valorem*. In years of famine the tax on grain and pulse may be removed by executive order, while railway material for lines worked by the state was to be free from taxation as Government stores, though railway material for lines owned by the state but leased to companies for working was to be taxed 2½ per cent. (iv) † The other articles on the old free list were to be brought under the general tariff of 7½ per cent. as there was no justification for their being duty-free. These modi-

* "In para 54 of the financial statement 1915–16, I said that the Government would not hesitate to resort to increased taxation to meet a deficiency in revenue which promised to be of a more or less abiding character. That contingency has now to be faced. The war continues, and we cannot go on, year after year, with uncovered deficits. We consider it essential in the present uncertain out-look to increase our revenue resource in order to make good the anticipated Imperial deficit of the coming year, and also to supply a substantial surplus." Para 32, financial statement 1916–17.

† In 1925 a decision of the High Court allowed the Railway Company stores to be exempted from these duties.

fications were estimated to yield £·160 million. (v) The duty on iron and steel was to be raised from 1 per cent. to $2\frac{1}{2}$ per cent. and that on other metals from 5 per cent. to $7\frac{1}{2}$ per cent. giving an additional yield of £·08 million. (vi) The duty on arms and ammunition was doubled, approximating 20 per cent. *ad valorem*, and yielding £ ·020 million. (vii) The duty on ale, beer, porter and cider was increased from 3 as. a gallon to $4\frac{1}{2}$ as., with a corresponding increase in the excise. The rate on potable spirit was raised from Rs. 9-6 a gallon to Rs. 11-4 per gallon and the preferential rates on spirit contained in drugs and medicines were withdrawn. The duty on champagne and sparkling wines was raised from Rs. 3-12 to Rs. 4-6 per gallon, and that on still wines from Rs. 1-8 to 1-12. Including £ ·020 million from excise increase, the total additional yield from these changes in the duties on wines, liquors and spirits was estimated to yield £ ·130 million. (viii) On tobacco, the duty was left untouched on the unmanufactured article; cigars and cigarettes were to be taxed 50 per cent. *ad valorem* in place of the existing specific duties. Manufactured tobacco of other description was to be taxed Rs. 1-8 in place of Rs. 1-2 per lb. The total additional yield from these changes was estimated at £ ·030 million. Petroleum, cotton manufactures, and rice were to be left unchanged. Silver-ware was to be taxed 15 per cent. *ad valorem.* (ix) The exports of tea were to be taxed Re. $1\frac{1}{2}$ per 100 lbs., and the change was estimated to yield £ ·300 million. The export of raw jute was to be taxed Rs. 2-4 per bale of 400 lbs. equivalent to 5 per cent. at the then prevailing prices, cuttings and rejections being charged 10 as. per bale. Manufactured jute exports were to be taxed Rs. 10 per ton in the case of sacking, and Rs. 16 per ton in the case of hessians. The yield was estimated at £·580 million. In addition, the tariff changes affecting the land trade were expected to yield £· 030 million. (B) The duty on Salt was to be raised from Re. 1 per maund of 82 lbs. to Re. 1-4 per maund, estimated to yield £·600 million. (C) In the Income-Tax changes all existing exemptions were left unaltered, as also the rates affecting incomes upto Rs. 5,000 a year. Incomes from salaries and pensions and "other sources" exceeding Rs. 5,000 and upto Rs. 9,999 were to pay 6 pies in the rupee; those between Rs. 10,000 and Rs. 24,999 a year, 9 pies in the rupee, and those of 25,000 and more, one anna in the rupee. Profits of companies were to be taxed 1 anna in the rupee, subject to exemptions to individual share-holders whose incomes may be low enough to entitle them to such exemptions and to companies whose profits were below Rs. 1,000 a year. Interest on securities was to follow the same rate. These changes were expected to yield £ ·900 million additional revenue.

In criticising these changes it may be observed, in the first place, that there can be no doubt as to the need for these changes. In view of the grave necessity, the point of regret, rather, is that the Government of India waited one whole year before making these charges, and even then confined their changes to getting an amount equal to meet the permanent addition to expenditure, without attempting to meet any portion of the war expenditure

from current revenues. The only excuse for the Government of India might be that they were misled by the Home Government as to the duration of the war and the seriousness of its demands; but that excuse cannot apply when the Government woke to the real character of the emergency, and yet made provision for it on the most conservative lines.

Turning from this general criticism to more specific charges, the criticism seems to be irresistible that Government held the scales unevenly between the payers of direct taxes and those of indirect taxes. While their proposals aimed at getting £ 2·7 million from indirect taxes, only £ ·9 million was to be raised from direct taxes. Before the war the respective burdens of direct and indirect Tax-payers were already very unequal to the prejudice of the latter; the proposed changes made the burdens still more unequal. Even if we deduct £ 580,000 of jute revenue, £ 300,000 of tea revenue, and £ 30,000 of tobacco revenues, as not really borne by the poor Indian consumer, the disparity of burdens still remains, particularly if we remember that the ability, as measured by wealth or income, of the indirect tax-payers would be most prejudicially affected by a rise in prices, while the ability of the classes paying income-tax was, if anything, rather improved. Objection may, therefore, be taken against these changes, especially the increase in salt duty; and the point was driven home by the further defect of these changes in that they were professedly made to yield a surplus. It is obviously unjust to tax the poorest class of the community most heavily for the object of getting a surplus. In the matter of income-tax, we have already noted our objections to the present system, with special reference to the exemption of agricultural incomes and the relatively low rates on higher incomes. We may note, in passing, the exemption granted to those engaged in the tea industry, which, though in a highly prosperous condition, still enjoys this antiquated, unjustifiable exemption, on the somewhat doubtful plea of its being an agricultural industry, if the paradox be permitted. There were some critics of the Budget of 1915-16 who at the time professed to see in these changes a fundamental change of policy. There is and there was intended—no such change. **The Indian tariff system was then exclusively, and still remains mainly, one for Revenue purposes only.** The Government may have attempted to make some alleviation of the most outstanding sores, but they did not succeed; and therefore the fiscal policy remained as before, without a bias in favour either of protection, or with a view to regulate the trade balance as was the case with the English Budget of September 1915.

A further point of criticism against these proposals, which at the time they were made was not quite obvious, is that the estimates of revenue were unjustifiably low. The caution in estimates is a legacy of the days when the extraordinary fluctuations in exchange causing loss to India were a source of unending nightmare to the Finance Minister. Such excessive caution has no justification in modern Indian finance, and is apt to make the control on the spending departments very slack. As is to be expected from such a state of things, the revenues were about 15 per cent. in excess of the estimates, the

greater portion being, of course, contributed by the payers of indirect taxation. In the next Budget, 1917-18, the prosperous state of the revenues had induced the Government to offer, what in the conditions of India must be regarded as a lavish grant, by way of a war contribution of £100 million. There was no earthly chance of raising this sum by revenue changes. Recourse to borrowing was inevitable, with the inevitable consequence of adding a permanent, unjustifiable burden by way of interest on the revenues. In combination with the increase in military expenditure, this extra charge would mean an addition to the taxation. With the existing basis of revenue and expenditure, the Finance Minister estimated a surplus of about £2'75 million. With the extra charges just referred to, the surplus was converted into a deficit of £3 million at least, probably much more. Additional taxation was, therefore, determined upon. The Finance Minister wisely left untouched the salt duty on account of the prevailing high prices. "A moment when prices are abnormally high," he observed, "is not the time for adding to the tax as well" (para 59). After coquetting with the proposals for a cess on land* and for a tax on Excess Profits†, he at last decided to make good his anticipated deficit by means of (A) Super Tax £1'350 million; (B) doubling the jute duties £'500 million; (C) Cotton duties £1'00 million; and (D) a surtax on Railways estimated to yield £'500 million, in all £3'350 million.

(A) The super-tax in addition to the income-tax was to commence on Incomes of Rs. 50,000 and over in a graduated scale as below:—

	Annas.
(1) For every rupee of the first 50,000 of the excess, *i.e.*, between Rs. 50,000 and 1 lakh	1
(2) For every rupee of the next 50,000 excess	1½
(3) " " " " " "	2
(4) " " " " " "	2½
(5) " " " " " " Remainder *i.e.* on everything over 2½ lakhs	3 ‡

* "Though we do not in any way admit that our land revenue assessments are other than most moderate, we prefer, so long as this is possible, to have the enhancement or imposition of special cesses as sphere of taxation suitable for local boards, in order to assist these in developing such beneficent expenditure as that connected with education, sanitation, medical relief and local communications. It must be understood, however, that while we refrain on the present occasion from imposing additional Government taxation on agricultural incomes, we can give no pledge that we shall refrain from doing so hereafter, should future necessities oblige us to take that course". Financial statement 1917-18 para 60. Agricultural incomes are still free from all taxation other than land revenue.

† This proposal for excess profits tax was dropped on the ground that there was no efficient machinery for assessment, as well as because by its nature it is a temporary expedient, while Indian finance was really in search of a permanent support. It was, however, introduced in the first peace budget 1919-20, but dropped in 1921. There can be no question of the justice of such a tax, whatever its practical inconveniences may be. It is, however, only a war measure, not a permanent item of revenue.

‡ This arrangement served to avoid an anomaly which is involved in our income tax legislation. Since all incomes under Rs. 10,000 pay 6 pies in the rupee, and those over Rs. 10,000, pay 9 pies, it follows that the amount left after paying the tax on an income of Rs. 9,950 is Rs. 9,639-1 while that left after paying the tax on Rs. 10,050 is Rs. 9,578-14-6 or actually less than the lower income. Under the above arrangement such an anomaly cannot take place in the case of super tax.

* * * * * *

This criticism still applies to the main income tax.

This was a welcome change in the most desirable direction, and making the richer classes bear something like their fair share of the burdens, though, even so, the figure remained much below the similar taxes in the United Kingdom or the United States. In the absence of reliable statistics to make an estimate, a guess was hazarded putting the yield at £1·350 million. *

(B) The doubling of the rates of duty on the various Jute exports would have yielded much more than ½ million, but for the difficulties of freight and exchange, as well as the restriction of export to the United Kingdom.

(C) After 20 years of injustice, the cotton goods were allowed to be brought under the general tariff of 7½ per cent. *ad valorem*, in place of the old 3½ per cent. duty coupled with a countervailing excise. The latter, yielding £ ·320 million, could not be abandoned, but the former meant an addition of £ 1 million to the revenue, without, however, altering the fundamentals of our customs tariff.

(D) A surcharge on Railway traffic at 1 pie per maund of coal, coke and fire-wood, and 2 pies per maund of other articles, was estimated to yield £ ·5 million.

The Budget for 1917–18 was, speaking generally, free from any ground of serious criticism. The Government had, of their own accord† promised a magnificent War contribution, in addition to the services already rendered by India, without consulting the people's representatives. The latter were, therefore, out-manœuvred, and were offered the disagreeable alternatives of seeming to be miserly in the hour of the Empire's greatest need, or accepting a disproportionately large burden without a word of protest. The former alternative, even if there was in the Council any one bold enough to adopt it, was ineffectual, as, under the rules, the council had no power to vote the Budget. Any opposition would, therefore, be unavailing, however well it may have been founded. The only note of dissent, therefore, was sounded on the ground that non-official Indian members were deprived of the opportunity of making a voluntary, graceful offering by this step of the Government, which made the entire issue a foregone conclusion. On the other hand, the proposal to tax cotton manufactures at the general rate was necessarily appreciated, though there were moments of intense, exquisite anxiety, when the British Parliament seemed likely to veto this step under the influence of

* The receipts from the super tax were wholly reserved for the Imperial Government, though the income tax proceeds are divided between the Imperial and Provincial Governments.

† The following telegram was addressed early in January 1917 to the Secretary of State by the Viceroy : "I feel, and I speak throughout with the cordial and unanimous assent of my colleagues, that the time 'has come for India to place her credit and her taxable capacity at the disposal of His Majesty's Government, to be utilised to the farthest extent, which, her limited resources, and a just appreciation of the circumstances of her people, render practicable, and in such time and manner as H. M.'s Government may deem expedient. We are prepared to borrow in India, as a war loan for H. M.'s Government, the largest sum which can be raised, and to offer for this purpose terms no less liberal than those which have been granted in England." The telegram went on to indicate that India was prepared to contribute £100 million, and the offer was thankfully accepted. See para 49, of the financial statement of 1917–18.

the Lancashire vote. There was a *quid pro quo* of some sort, though of course, not all that could be desired; and the war contribution was, therefore, accepted in silence, if not with approval. The only point which aroused criticism was the proposal to tax the profits of the joint stock companies under the super-tax, with the exception of the amounts legitimately required for depreciation, but including reserves. The Indian money-market is notoriously suffering from a scarcity of loanable capital, and to set off this deficiency many enterprises in India have been started with a small subscribed capital, the additional money required being raised in the form of capital debt. Out of the profits in good years the capital debt may be discharged, and further additions or improvements undertaken from the same source. Without this expedient the large scale industries of modern times would not have made the progress that they have in the last twenty years. Besides, in India, the investor expects, and the managing agents of large enterprises are often compelled to divide profits upto the hilt; hence a good reserve can be built up only when the majority of the shares are in very strong hands. Now if a super-tax was levied on the reserves, it would not be unnatural to apprehend that the tendency to divide profits upto to the hilt will be encouraged, and the fluctuations characteristic of Indian industrial enterprise will be still more encouraged. In view of these objections the Bill was amended, and 10 per cent. of the profits, in addition to the provision for depreciation, were allowed to be set aside free of super-tax. This, as far as it went, was a welcome change, but conservative bankers and industrialists still felt that it did not meet the special needs of Indian industry. The very considerable rise in prices, coupled with a practical impossibility of effective competition, had caused a boom in Indian industry, which, it was rightly desired, should be made to bear its fair share of the war burdens. In England and the United States they were taxing the excess war profits upto 80 per cent.; but in India, owing to the absence of the requisite machinery for ascertaining the normal and the excess profits, the Finance Minister—himself no bad specimen of sound, conservative, middle class financier—did not feel it possible to introduce the excess profits tax. There was, in the absence of the alternative state or co-operative enterprise, no means of effectively controlling prices of articles produced by private enterprise. Consequently the super-tax was the only—and not the heaviest—alternative open to the Finance Minister, if he was not to render the distribution of war burdens even more uneven than it actually was.

These changes completed the tax additions of the war period. The practice of too cautious estimating was again evidenced in 1917-18 by the revenues exceeding the estimate by 12·5 per cent. from £ 98·8 million to £110·4 million; the expenditure also increased, but not in the same proportion, from £ 98·8 to £ 102·2 million. With these sums in hand, the Finance Minister did not feel it necessary to add to the burdens of taxation in 1918-19, all the additional needs being met out of further borrowing. In order, however, that the borrowing programme might be a success, the

Government felt the need of restricting by law industrial floatation, and so a temporary war measure—the Indian Companies Restriction Act of 1918—was introduced in the Council. It required the Registrar of joint-stock companies not to register any new company, and forbade existing companies to increase their share capital, or issue debentures, or call up unpaid capital, unless the Company had a license in this behalf from the Governor-General in Council. This was, of course, felt to be an excessive demand on the score of war needs; but it was an inevitable logical consequence of the policy of borrowing in India which the Government had so unwisely adopted. In working this law, the Finance Minister explained two general questions would be asked of every company demanding a license: *viz.*, (*a*) Is the proposed Company likely to attract money which would otherwise go into loans and Treasury Bills? (*b*) If it was likely to attract money which would go to Government, was the enterprise such as would help to speed up the production of war material or likely to result in the production of other commodities which would save tonnage and imports into India? If it was, the license would be granted; if it could not help in war work, and might on the other hand help to take away money which would otherwise go to Government loans, the license would be refused. The decision on these questions was to be left to a committee of officials and businessmen. Such a procedure could not but give rise to complaints about favouritism by the Committee in the issue of licenses; and the utterly unacceptable character of the bill saved it from annihilation owing to the obvious means of evading its provisions* and, much more, to its temporary character, coming speedily to a close on the termination of the war.

Another interesting proposal in the Budget of 1918-19 was with reference to the consolidation of the Income Tax Act, incidentally by bringing the agricultural incomes under the operation of the law. The offending clause was, however, excised by free voting being permitted to the official members. That Act affected "all income from whatever source it is derived, if it accrues or arises or is received in British India." Exception, however, is made in

* The present writer of his own experience can mention at least one case in which the provisions of the Act were palpably evaded. It was a proposal to acquire certain lands in Burma supposed to have considerable possibilities for mineral oil and other mining opportunities. The capital considered necessary was fixed at 60 lakhs. The licensing Committee were assured by the promoters that the enterprise was bound to be of national benefit and immense help in war work, by supplying the much needed fuel. The Committee, though consisting of friends of the promoters, could not quite swallow that such an enterprise would require so much capital. It was, then, assured that the proposed capital was essential in view of the high prices of machinery, etc., and that if the license were granted, and the company succeeded in obtaining subscriptions, they would subscribe a specified proportion to the war loan. This was enough. The Government knew they could not make quite so good an appeal to the rich investor as the industrial proposition could, and as the promoters of the proposition were willing to make contributions to the war loan, more was to be gained by according the license than by refusing it. The license was granted, but unfortunately the differences among the promoters on the division of spoils allowed the proposal to fall through.

It may be added that the real hardship of this measure was not so much in the case of industrial enterprise—for which it was during the war extremely difficult to obtain plant and machinery from Europe,—as in the case of banking or insurance enterprise. No such proposals were made during the period of restriction.

the case of (1) income derived from property held under trust for religious or charitable purposes; (2) income of a religious or charitable institution; (3) income of local authorities; (4) interest on securities held in provident funds or (5) amount received in commutation of pension; (6) special allowance to meet expenses incurred in performance of a duty or office; (7) legacies, (8) casual and non-recurrent receipts; (9) perquisites which are not money and cannot be valued in money. These were all exempted from taxation. Agricultural incomes were also exempted. The categories subject to the tax were: salaries and pensions; interest on securities; income derived from house property and from business, professional earnings, and incomes derived from other sources. The exemptions allowed under the new Act, we may remark in passing, were open to objection in the case of agricultural incomes and those under (1), (2), (6), (7) and (8). They sacrificed a considerable portion of revenues, without any real corresponding benefit to the community. We have already laboured the point about agricultural incomes and those of religious bodies elsewhere. The wealth of the last mentioned class is unknown, and probably very large. It lies absolutely idle, or is used only to pamper a most mischievous section of the community in extravagant idleness to the grave prejudice of the health, morals, and intellect of the community. There is no excuse for their exemption except the timidity of a Government which does not feel itself national. Under (6), the allowances would include travelling allowance, which, despite the regulations of public service, is actually made a source of considerable income and ought to be taxed: so also legacies which in India are not subject to any other tax. Under (8), the most considerable item of income would be prizes under lotteries. The Government of India, in faithful imitation of Britain, consider lotteries illegal, and so ignore their existence altogether. It would be a more effective source of discouraging them if they were subjected to a heavy license fee, and the prizes were made liable to super-tax and income tax at even heavier rates than those on ordinary incomes. It is an open secret that considerable sums are annually distributed in India by local or foreign lotteries (*e. g.* the Derby Sweep under the auspices of the Calcutta Turf Club), though, of course, in the absence of official statistics, there cannot be any reliable estimate.* The Act laid down a scale of deductions for those shareholders or security holders who have been taxed at the source in the first instance, but whose total income from all sources was not large enough to allow the one anna rate at which profits of companies and interest on securities are charged.† The mode of assessment was also changed, it being made compulsory on every company

* A license duty on every lottery, combined with a 25 to 50% income tax on prizes would yield as much as a crore under normal circumstances.

† The rates of refunds are:—

One anna	in the rupee if income below Rs.	1,000	a year.
8 pies	" " " " " between "	1,000 and 2,000	a year.
6 "	" " " " " " "	2,000 and 5,000	"
"	" " " " " " "	5,000 and 10,000	"
3 "	" " " " " " "	10,000 and 25,000	"

to send in an annual return, while private persons were required to submit a statement of their income to the tax collector. The collector might assess the tax on that statement, or make further inquiries. Provision is made for appeal against the decision of the collector to the commissioner who may alter, confirm or reject the collector's decision. A penal assessment of double the tax was to be levied on any one guilty of concealment of his income, while misstatements were made a criminal offence which may be prosecnted at the instance of the Collector. Graduation remains as under the Acts of 1916 and 1917.*

V.—The History of the Indian War Loans

In the first two years of the war, as already observed, the extent and nature of the strain likely to be caused by the war being not properly understood, the Government of India decided to meet the deficits caused in their ordinary revenue and expenditnre by (*a*) cutting down their programme of capital outlay on productive public works; and, if that did not suffice, by (*b*) temporary borrowing. As the war went on, its strain proved to be greater than could be met by simply retrenching in ordinary expenditure; while borrowing in the nsual loan market of the Government of India became increasingly difficult owing to heavy borrowing for war purposes in England itself. In the first war-budget 1915-16 the whole demand was met by temporary loans being raised in England, and in India by a loan from the Gold Standard Reserve. In India a loan of £4 million was issued on 1st December 1915 at 4 p. c. and on condition that it was to be repaid on or before the 30th November 1923, but not before 30th of November 1920 with three months' previous notice. In the next budget was announced the 4 p. c. conversion loan to which reference has already been made. It was to be repaid on or before 1st October 1936, but not before 1st October 1931, with three months' previous notice. Being issued on October 1st, 1916, it offered an investment for not less than fifteen and not more than twenty years. The loan realised about Rs. 6·73 crores, including Rs. 32·49 lakhs raised through the Post Office. This last was an innovation to attract the small investor. It was estimated to yield at most Rs. 50 lakhs, but it yielded about ⅔ of the estimate. This was considered sufficient indication of the popularity of the post-office section to encourage the Finance Minister to make it a permanent feature of the Indian financial organisation. The main loan was intended in the first instance to be for £4 million or 6 crores of rupees, which, under certain circumstances, the Government were willing to increase to £8 million or 12 crores of rupees, in addition to the Post Office loan receipts. The loan actually subscribed barely reached the expected limit of £4 million, and so the Government felt their borrowing programme was not quite an unqualified success. Perhaps the chief factor accounting for the relative failure of the loan was the limitation placed on the conversion rights.

* The act has been more than once amended and altered since in the direction of greater stringency; and its administration has become very much more strict and efficient after the war. The ground plan, however, remains as described in the text.

After the decision to contribute £100 million towards the war costs of the Empire had been taken in March 1917, the borrowing programme had to be very much expanded in spite of the relative failure of the previous year. An unlimited loan, the yield of which the Finance Minister could not put over £10 million in the budget,* was issued in three sections: (1) A long term loan at 5 p. c. interest was issued at 95, to be redeemable on or after 31st March 1929, and in any case not later than 31st March 1947. A special sinking fund was to be created in respect of this loan, and conversion rights were offered in respect of all existing long term obligations.† But the long term investment required by this loan would not suit the convenience of banks and financial houses, to whom easy and early redemption was much more important than the permanence of the investment. For their convenience (2) the short term bonds, with a currency of 3 to 5 years, at the option of the purchaser were introduced. The interest on these was to be at $5\frac{1}{2}$ p. c. free from income tax, but subject to super tax.‡ The third section was intended to be a permanent measure to bring the government into touch with the small investor. There was to be no time limit in respect of contributions from this source. Post-Offices throughout the country were to sell cash certificates of Rs. 10, 20, 50 and 100 at a price so fixed that the amount repayable at the end of five years, *i. e.*, the full face value of the certificates, should represent a return of about $5\frac{1}{4}$ p. c., compound interest, the Rs. 10 certificate being thus purchaseable at Rs. 7-8. That the holder may not be embarrassed by his investment in case of need for liquid funds, it was further provided that the Post Offices should repurchase these certificates at a valuation which would allow interest for the period during which the certificate had been held.§ The interest on these would be paid

* See para. 21 of the Financial Statement of 1918-19.

† "Taking these factors into consideration, the conversion rates we have fixed as fair are that every Rs. 100 of the 4 per cent. conversion loan shall be accepted as equivalent to Rs. 92 of our new loan, while the corresponding rates for the $3\frac{1}{2}$ and 3 per cent. paper will be Rs. 76 and Rs. 65 respectively. I am speaking in each case of face values. Thus, to take a single example, a person who has obtained conversion rights entitling him to convert Rs. 600, face value, of $3\frac{1}{2}$ per cent. paper, will have that paper converted into our long term loan at Rs. 456. But it must be remembered of course that the loan is only issued in denominations of Rs. 100; consequently while the holder can obtain Rs. 400 in any case, he can only obtain 500 by subscribing the cash equivalent of Rs. 44 (nominal) of the new loan, and for the sake of simplicity we shall fix the cash discount at one anna per rupee of nominal value.........This year we are adopting a simple uniform rule.........that for every Rs. 100 face value of a new paper issued Rs. 150 face value of old paper may be converted whether it be 4 per cent. or $3\frac{1}{2}$ per cent." Para. 79, 80 of the Financial Statement, 1917-18. A sinking fund of $1\frac{1}{2}$ per cent. a year was specially established for the redemption of this loan. The conversion rights were necessarily narrow to obtain new funds.

‡ This provision was anomalous—a result of too faithful an imitation of the English terms. It might have prevented very large subscriptions by single individuals or corporations for fear of the super-tax.

§ Specimen table to show increment in the value of Rs. 10 cash certificate at the end of each whole year :—

	Rs.	a.	p.	
Purchase price	7	8	0	Due after 5 years Rs. 10
Due at end of 1st year	8	1	0	
Due at end of 2nd year	8	7	0	
Due at end of 3rd year	8	14	0	
Due at end of 4th year	9	6	0	

free of income tax. The amount that could be held by any individual was limited to Rs. 10,000.

The following table shows the total subscriptions under the various heads :—

——	5 p. c. War Loan 1929–47.	5½ p. c. 3 yr. Bonds.	5½ p. c. 5 yr. Bonds.	Total.
	Rs.	Rs.	Rs.	Rs.
Main Section ...	10,80,85,400	16,77,82,500	10,49,90,800	38,08,58,700
* Government Scheme	2,99,700	13,82,400	7,45,500	24,27,600
British Tr. Bills ...	97,60,500	66,51,100	......	1,64,11,600
Total ...	11,81,45,600	17,58,16,000	10,57,36,300	39,96,97,900

In addition to these Rs. 3,21,99,550 were subscribed through the Post Office before August 29, and Rs. 7,10,93,935 by way of cash certificates before August 23. The aggregate total was Rs. 50,33,23,885 far in excess of the budgeted estimate of the finance minister. Nearly 30 crores out of 50 was for short term bonds chiefly taken by banks and joint stock companies. Among the various provinces, Bombay led the way by a total subscription of Rs. 10,65,08,600, Bengal coming a near second with Rs. 10,46,54,100. If we add the subscriptions through the Post Office and cash certificates, Bombay's lead would be much more considerable, being Rs. 13,22,76,105 as against Bengal's Rs. 11,44,20,729.

The necessity to meet the promised contribution from Indian sources, combined with the military requirements of the Imperial Government to be financed by India, imperatively demanded the continuation of the borrowing programme in the budget of 1918–19. Though the budget estimate of the yield of the loan was much exceeded in 1917 by the actual totals, the estimate of 1918 again adopted a modest figure on the ground, chiefly, that the effort of 1917, in proportion as it was magnificent, must have exhausted the loanable resources of India. £20 million or thirty crores was expected to be the utmost limit of the yield in the second year. This loan of 1918 was in two sections, the 5½ p. c. bonds of 3, 5, 7 and 10 years' duration, and the Post Office section. The yield in the main section was divided as follows:—

——	War Bonds 1921	War Bonds 1923	War Bonds 1925	War Bonds 1928	Total.
	Rs.	Rs.	Rs.	Rs.	Rs.
Main Section ...	23,28,25,100	1,70,91,100	3,54,34,600	21,91,39,500	50,44,90,300
Govt. Scheme ...	61,00,000	......	7,50,000	16,09,300	84,59,300
Br. Tr. Bills ...	8,89,700	1,12,500	1,85,600	5,56,300	17,44,100
Total ...	23,98,14,800	1,72,03,600	3,63,70,200	22,13,05,700	51,46,93,700

* The Government offered their servants certain facilities for subscribing to the loan, which came to be known as the Government scheme. Presidency and other banks also offered substantial concessions to their clients to take up the loan, paying them as much as 95 p. c. of the amount required to buy the loan by way of advances for two years at 5 p. c. or similar low rates. The banks, however, applied the screw in case of depreciation, and demanded further cover against the advances.

This yield, it may be observed, is in addition to the amounts obtained by means of the cash certificates and through the Post Office section, which was expected to yield Rs. 5·5 crores, making a total of about Rs. 57 crores.*

The amount received in subscription to the main war loans in its various sections was, it must be mentioned, in addition to the still more short-term loans in the form of treasury bills. The amount of these outstandings varied from week to week, but generally the accretion to the resources of Government through this source was seldom under Rs. 30 crores, and often in excess of 45 crores. To banks and financial houses, these first class short-term loans were peculiarly acceptable, and hence their large amounts taken up. For day to day financing of the demands upon the Government, there cannot, perhaps, be a better expedient.

It may also be added at this stage that during the operations of the war-loans the procedure for obtaining scrip was very much simplified. In place of the old system of tender and allotment, the Government now issued scrip over the counter in most places immediately on payment of the amount, while very short delay sufficed to get it even in the most backward places.

VI.—Loans *vs.* Taxes

We have already discussed elsewhere the entire borrowing programme of the Government during the war from the stand-point of its effects upon Indian industry and commerce. We shall, therefore, confine ourselves here only to considerations of general financial principles. But one point of detail must not be passed over in silence. While we must welcome the new expedients which have roused a much needed spirit of investment in India, we cannot but point out that in many cases the creditors of the Government are induced to subscribe more by force than by any intelligent perception of the advantages. As the Finance Minister put it in 1919, if the canvasser's zeal outruns his discretion, the swelling of the nominal figures subscribed would afford no substantial aid to the State, and may quite possibly

* In commenting on the success of the war loan the controller of currency observed: "The main section of the 1918 loan has realised nearly 51½ crores, and the number of applications was no less than 103,282. The Post-Office section of the 1917-18 war loan realised Rs. 4½ crores, the number of applications being 82,000; and it is probable that even better results will be obtained through the Post-Office section this year. The full significance of these figures will be appreciated by consideration of the fact that, previous to the war, the largest rupee loan raised in India in recent years was that of 1906 which amounted to Rs. 4½ crores, the number of tenderers being only 1172. It is, perhaps, not too much to hope that we have now in existence the germ of a large class of *rentiers*, the investment of whose savings in the public loans should, in future years, be of almost incalculable value in furthering the development of the country." Lord Meston, as finance minister in 1919-20 re-iterated the same view as much for the industrial development of the country as for the steadying of our currency system consequent upon the growth of the habit of keeping wealth in the form of securities—para 33 of the statement. Lord Meston gives the figures of applications for the loan, excluding purchasers of cash certificates, at 155,103 in 1917-18 and 227,706 in 1918-19.

prove a source of grave danger, if considerable amounts of such short-term bonds as the cash certificates got into the hands of very weak holders.* Besides, the whole of the war period borrowing was exclusively for wasteful, though unavoidable, purpose; and there is no cause for jubilation at its success, except in so far as it affords a hope of success for similar borrowing in the future for more productive purposes.† On grounds of sound financial principles we cannot but deplore the preference accorded to borrowing over taxation for meeting this heavy, unproductive charge. Assuming for the sake of argument, the necessity as well as the justice of a contribution of £100 million from the resources of India for England's war in Europe, though England has never, except in the case of the Second Afghan War, contributed anything to the expenses of the wars undertaken by India in the imperial interests and often against her own; and despite the fact that the relative wealth of the two countries is so enormously different, making a contribution which would be crushing to India almost a flea-bite to England, it may yet be questioned whether financing by borrowing was really more beneficial than raising taxation. It is, of course, true that by no conceivable means in the present circumstances of India the whole of the £100 million could have been raised in a single year from taxation in addition to the ordinary revenues,—short, indeed, of a forced levy on wealth, which a government, conscious of its want of national spirit, and therefore of the absence of the fullest sympathy by the people, could not attempt. But there is nothing to prove that the amount they actually obtained by subscriptions to the war loans could not have been obtained by a combination of a 25 per cent. income tax on incomes over Rs. 50,000 a year, coupled with a graduated super tax rising to 50 per cent. on incomes exceeding Rs. 2,50,000 a year; manipulation of the customs schedule in the manner suggested in a previous section; raising of excise duties to double the existing rates, the introduction of a new excise on home-grown tobacco preparatory to the commencement of a monopoly in that article; and the abolition of all unfair exemptions in the case of income-tax. The rejected tax on land might, in that case, have appeared less objectionable. The total of these would have, at the lowest estimate, yielded Rs. 30 crores additional, and paid off the whole contribution in 5 years, instead of charging the country with a useless burden by way of interest of Rs. 10 crores a year in round figures for 30 years at least. A great officer of the Government,‡ in starting the campaign for the Second War Loan, was flattered to have made a great hit by discovering the obvious truth that

* Weak or strong, the small investor must realise his investment in a period of stress such as the famine year of 1918–19. The conversions in that year, therefore, do not give any indication of the possibility of extending the system of borrowing from small capitalists.

† It may be doubted if the efforts to obtain subscriptions for industrial purposes would be quite so severe as in the case of war subscriptions. In the former case, subordinate officers would be lacking the spur of commendation from superior officers that they had for their war exertions; and in the absence of official pressure it is doubtful if Indian investors would be forthcoming in the proportion and to the extent they did during the war.

‡ Lord Ronaldshay in April 1918.

if the loan were subscribed in India, the interest also would remain in the country. It had been the burden of Indian critics' song for thirty years and more against the Government's policy of borrowing abroad. But what neither the Government nor its critics quite realised was the perpetuation of inequalities of an injurious kind in the distribution of the national wealth by the adoption of the system of borrowing in preference to boldly facing the situation and raising taxation. There could be no objection, perhaps, to either borrowing or increasing taxation, if all citizens were of equal ability and had equal incomes. But in view of the immense existing inequalities, in the face of indefensible exemptions from taxation, the preference to borrowing must necessarily produce the most miscellaneous results. The poor man will have to bear additional burdens to pay the rich man his interest and capital, which, being used up in smoke and powder, could have done no material good to the country and its poor inhabitants.* Moreover, during such a long-drawn out struggle the poor suffer much more than the rich, in that the unavoidable demands of war end in diverting capital from industry, and, therefore, leave the worker with much less efficient tools to make an effort for a much larger production. Apparently, the worker may obtain the benefit of the war in the shape of increased wages. But even if this increase in wages is real, and is not set off by harder and more continuous work for longer hours, as well as by a much greater increase in prices, the war time prosperity of the working classes is essentially short-lived, while the burden of taxation left as a legacy of the war is bound to be permanent. "The absorptions and destruction in war of large masses of resources, which would normally have been used in industry, necessarily means that the labour of future years has fewer tools and machines with which to co-operate, is, therefore, less productive and earns a lower rate of remuneration" (*Pigou*). Besides, the rich in subscribing to the war loans will have recourse to their banks, and the grant of easy facilities by them cannot but end in an undue inflation of prices. We must, therefore, condemn the policy of the Indian Government in relying upon borrowing for their war demands in preference to raising taxation, and thus leaving a permanent burden upon the people very unfairly and unevenly distributed. Increased taxation would not only have prevented the accumulation of a permanent and unproductive burden; it would of necessity have left the burdens on those best able to bear them, because while the limit of taxing the poorer section of the community is soon reached, the limit of taxing the rich is much more elastic than is believed under a tax system like ours, whose outstanding characteristic is excessive timidity and indefensible

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* As Prof. Pigou has rightly pointed out (*Economy and Finance of the War*) when the inflated war-prices should return to their pre-war or normal level, the burden of interest would prove in reality much greater. For when the rich capitalist took up the war loan, the interest he was promised would have purchased in terms of values much less than the same amount would purchase when the prices should have fallen. The arrangement is, on the whole, entirely for the benefit of the rich. We have in this section followed the argument of Prof. Pigou, op. cit. in his chapter on Taxes *vs.* Loans.

caution.* When the war was over, the increased taxation might have been remitted, or the surplus receipts might be used to finance projects of material improvement for the permanent benefit to all classes of the country. Government based their appeal for war loans subscriptions as much on economic as on patriotic grounds; but they overlooked the obvious retort that patriotism at 5 per cent. or 5½ per cent. is by no means such a hard virtue to practise as the invocations of patriotic virtue in Government notifications and their inspired press would lead one to believe.†

VII.—India's Total War Contribution

We have now reviewed the outstanding features of the war finance in India. It must be observed here that the total contribution of India to the war, such at least as is capable of a money valuation, is not confined to the taxes and loans above described. Though not bound to take any share in the war beyond her frontiers; though England with the single exception of Gladstone's contribution of £5 million towards the expenses of the Afghan war in 1878-80, has never borne any share of the frequent military expeditions forced upon the Government of India by consideration of imperial interest; on the outbreak of the war, non-official India hastened to offer the aid of the Indian army in the European struggle, agreeing to bear the normal cost of the troops despatched. Compared with the pre-war scale of expenditure, the net military expenditure borne by India had increased between 1914-15 and 31st March 1918 by about 25 crores. To this we must add Rs. 32 crores in round figures resolved to be contributed in September 1918, and another 5 crores as increased expenditure in 1918 April to September. This gives a total of 62·5 crores of rupees in military expenditure alone. We raised and sent to the various theatres of the war a million and quarter of troops, as against our normal peace army of about 2,70,000 men of all ranks. The service was all the greater, as India despatched her veteran soldiers and received in exchange much smaller numbers of inexperienced territorials to guard her exposed frontiers. The political

* Before the war a demand of Rs. 5 crores for the purpose of primary education being made compulsory and free was considered impossible to meet from the limited resources of India, while during the war for entirely wasteful purposes as much as Rs. 40 crores additional revenue could be found in a single year as compared to the pre-war standard. The possibilities of a country cannot be known if you do not try them. It is to be hoped that one good result of the war will be that in future no such fatuous arguments about restricted means will be used to defeat projects of material benefits to the country, which must cost.

† The above criticism, I am afraid, would not commend itself to Indian publicists, if one is to judge from the general tone of debates in the imperial council, and the stray works of Indian economic writers. See for example Prof. Kale's *India's War Finance*. Perhaps the leaders of Indian public opinion were afraid, in such a political crisis, to give their real views on war financing in India. More probably, most of them, who can understand such problems, have been reared in the old school of financiers, and, therefore, cannot see much, in the methods adopted to criticise. Sir William Meyer, the Finance Minister during the entire war period, received a paen of praise on his retirement, as much because be was an excellent, well meaning, cautious representative of orthodox finance, as because be really tried, within bis limits, to keep in view India's interests against every sort of pressure which must bave been brougbt to bear upon bim. Next after Baring, Barbour and Colvin in the eighties, Meyer seems to have been the most sympathetic finance minister of India during tbe last 50 years.

charges were increased owing to the war, by 200 crores upto the end of 1917-18, and possibly by 235 crores by the end of the war. For the same period the increase in the civil departmental expenditure was 37 lakhs. The interest on the war debt may be taken for the war period only at Rs. 20 crores. This, of course, leaves out of account the permanent character of the burden incurred. Miscellaneous expenditure may be taken at Re. 1 crore or a total of 87½ crores.

This is only the money side of the account. It does not and cannot show the fact that, thanks to the war, India has got an additional annual burden by way of interest alone of Rs. 10 crores, not to speak of the permanent increase in military expenditure of some 25 crores per annum that will result in consequence of the war and its non-effective charges. We have financed heavy outlays on the part of the British Government aggregating over £200 million in 5 years to the grave prejudice of our industry and commerce, our currency and exchange. We have invested largely in British securities—over and above making the gift of 100 millions—from our various reserves for the maintenance of the currency system, and to that extent contributed to the success of the various British war loans. These came to over £130 million and depreciated after the war so much as to cause India a net loss of about half the amount if not more.* We have starved our own industries, restricted our trade, manipulated our commercial finance to help prosecute the war to a successful end. We cut down our usual programmes of capital expenditure for material development to dangerously low proportions; reduced the allotments of the provinces for education and sanitation; stopped all schemes of social amelioration that might at all interfere with the financial needs of the war.†

As though these contributions were not enough, it was resolved in the last month of the war to contribute another £45 million to the expenses of the war. The way had been paved for this increase by a conference called by the Viceroy in April, where it was decided to raise 500,000 more troops in India commencing with June 1st. On the 9th of September, Sir William Meyer, the retiring Finance Minister, brought in a resolution saying: "That this council recognises that the prolongation of war justifies India's taking a larger share than she does at present in respect of the cost of the military forces raised, or to be raised, in this country." This procedure of a resolution was an adroit manœuvre on the part of the Government to force the hands of non-official members in accepting or rejecting the suggestion, since the Government declared that they had no intention to use their official majority to carry through the

* We, of course, include the depreciation due both to the successive rise in interest and also to the rise in exchange. The gradual appreciation of British credit in post war years must be taken to have offset this loss in part, except such of those securities as had to be compulsorily sold.

† In return we have obtained a recognition of a limited sort in the world council, and slightly more important place in the council of the Empire; a scheme of constitutional reforms which are expected to lead to complete responsible Government in course of time; and an equality of treatment in the tariff of import duties the most material of all,

resolution. Having pledged themselves to further exertion at the April conference, the non-official members had no alternative but to adopt the Resolution; and the Government could not but feel gratified that this was a popular contribution as against the previous contribution of £100 million which was made under an executive decision. The idea was to take over the entire cost of 200,000 troops for the period of the War; and assuming that the War would be over by March 1920, the Finance Minister calculated the additional cost at £12·7 million for 1918-19, £14·7 million for 1919-20, and for 1920-21 a year of demobilisation £7·7 million making a total of £35·1 million. To these he added additional pensions and non-effective charges for £10 million making a total of £45 million. As the expected surplus was considerable for 1918-19, no additional taxation was proposed, and the Resolution was adopted subject to the addition of the following words to the original: "and recommends that such larger share be to the extent and under the conditions and safeguards indicated in the speech of the Hon. the Finance Minister in moving this Resolution." The safeguards here referred to were: that India has no War expenditure to meet on her own account, nor any extraordinary expenditure on account of famine.

We have devoted so much space in this work to a detailed consideration of public finance in India under the stress and strain of war-time, because we cannot, even at this distance, regard the last war as a mere episode. The war and its financing have not only left permanent lessons of abiding interest. Many of the post-war problems of finance and currency are distinctly and directly the creations of the war; and if a right, satisfactory permanent solution is ever to be achieved for any of them, we cannot possibly neglect their origin, their *raison d'être*, for such a study alone can teach us the right solution.

PART VI

CHAPTER I

Provincial Finance

I.—Introduction

We have hitherto considered the financial system as a whole, as a single unit administered by the collective central entity known as the Governor-General in Council. There is a historical justification for such a treatment of our subject, in that what we now understand by a system of financial decentralisation, what is now considered by the leaders of Indian public opinion to be the ideal of constitutional progress, Provincial Autonomy, is, relatively speaking, of very recent origin. There has, indeed, been some sort of decentralisation in financial administration as in other departments but the principles influencing these arrangements are widely different from those which governed the schemes of the early authors of such decentralisation. But, whatever may be the value of such a justification from the stand-point of history; whatever may be the utility of presenting in a connected form the working of the entire system as seen from the stand-point of a central government; whatever the future may have in store for the rival principles of provincial autonomy and imperial centralisation, we cannot, in such a study of the Indian financial system as is here attempted, lose sight of the fact that Indian revenues and expenditure are divided between the Imperial and Provincial Governments, in accordance with principles which have been fashioned after fifty years of experience. That the student may not find his sense of proportion in the study of Indian finance obscured, we have set out a picture of the entire system in the preceding sections. That the politician or statesman might not confuse the issues, we shall now briefly trace the development of this singular system of administrative devolution for purposes of convenience, rather than with any great regard to principles of finance; and then offer such criticisms and suggestions as, from our own past experience and the experience of other nations similarly situated, we find applicable to the case in hand.

II.—Origin of Financial Decentralisation in India

The old presidencies of the East India Company were all too full of the memories of their independent origin and authority to submit, even after the Regulating Act, to the grinding authority of the Central Government.

In those days, the difficulties of communications and the intervention of large tracts of independent territories made the control of the Central Government impossible to exercise, even when it had the moral support of the supreme authority behind it, even when Parliament had recognised the necessity of and conferred the authority upon, the Government of India to exercise control over the revenues and expenditure of provincial governments.* So long as the means of communications remained defective; so long as the central government itself had no well-conceived plan of financial administration, the control required by Parliamentary enactments was, in practice, nominal. In theory, all the revenues from all the districts under the administration of the Company were collected by their local officers on behalf of the Government of India, and all the expenditure defrayed in the name of the same authority. In practice, the local governments had a pretty free hand, not, indeed, as in the glorious old days before the Regulating Act, to commence wars on their own authority, sign treaties and annex territories, but at least to minister to the needs of their province from the revenues collected by them under the formal authority or sanction of the Governor-General-in-Council.

But after the mutiny, when a special department was created by the central government for putting its own house in order, the possibilities of this centralisation began to make themselves manifest. The rail-road and the telegraph wire had between them put an end to the old time isolation of the provinces. They came into closer contact with the Government of India, and therefore, more directly under its control. The Imperial Government were, after the mutiny, endeavouring their utmost to effect retrenchments in every direction. And the provincial governments, anxious to accomplish ambitious schemes of material improvement and administrative reform, found themselves soon called to halt. "The supreme government controlled the smallest details of every branch of the expenditure," say the Strachey brothers; "its authority was required for the employment of every person paid with public money, however small his salary; and its sanction was necessary for the grant of funds even for purely local works of improvement, for every local road, for every building however insignificant."† But the Imperial Government were too keenly conscious of their needs to think of relaxing their legal authority, even apart from a not unfounded suspicion that the provincial governments were really clamouring for more money only to increase their own importance,

* By the Charter Act of 1833, it was provided that "no Governor shall have the power of creating any new office or granting any new salary, gratuity or allowance, without the previous sanction of the Governor-General." See sections 39 and 59 of 3 & 4 Will IV. C. 85.

† Op. Cit. p. 131. Cp. the following observation of the Decentralisation Commission (1909) para 54.

"Save in respect to local cesses which were levied in some provinces, *principally* for roads, schools and other items of local expenditure, each provincial Government was absolutely dependent on sums annually assigned to it by the Central Government, for the upkeep of its administrative services."

and not because they really needed the funds.* The imperial government did, indeed, gradually realise that for a country as large as Europe, with as many diversities of social and economic conditions, a single system, administered from one centre, is bound to be occasionally unsupportable by the inequalities it involved. They also felt the one justification that the local governments had in making clamorous demands upon the Government of India: their ignorance of the demands upon the purse of the latter. They often made allowance for a sense of irritation which the provincial satraps may have felt at what they considered an unwarrantable interference of the imperial government into the most trivial details of every-day administration. From 1860 onwards, the Imperial Government also appear to be realising their own inability at once to control and yet to carry on works of material benefit as vigorously as the provincial governments rightly desired. On the other hand, they perceived with regret that the officers of the provincial governments, who were necessarily the men to collect and spend the revenues, did not do all they might have done in the way of diligence or economy; and their masters, the provincial governors, had no incentive to enforce economy or diligence upon these officers. Frequent conflicts arose between the imperial and the provincial governments in which the latter were aggressive exactly in proportion as the former were wrong.† It was clear such a state of things could not long continue. The provincial governments could not undertake any scheme of improvement in their governments without fear of undue interference from the central government; and these in their turn could not budget with any feeling of sympathy or harmony or certainty in view of the unceasing remonstrances from provincial governments. As early as 1860, General Dickens had suggested a scheme of reform with a view to provincialise finance. The finance minister Mr. Laing himself made references in his budget speech to the need for such a reform.‡ His successor Massey

* The much-quoted passage from a minute by General Strachey, Secretary to the Government of India in the Public Works Department, may be quoted here as an illustration and in support of the remark in the text.

"The distribution of the public incomes degenerates into something like a scramble, in which the most violent have the advantage, with very little attention to reason; as local economy leads to no local advantage, the stimulus to avoid waste is reduced to a minimum; so, as no local growth of income leads to an increase of the local means of improvement, the interest in developing the public revenues is also brought down to the lowest level."

Cp. Strachey, op. cit. p. 139.

† Lord Curzon observed in one of his valedictory speeches: "In old volumes of our proceedings, which it has been my study at midnight hours, I have sometimes come across peppery letters or indignant remonstrances, and have seen the spectacle of infuriated pro-consuls strutting up and down the stage.........I am not one of those who hold the view that local governments are hampered in their administration by excessive centralisation, or that any great measures of devolution would produce better results.........I believe in a strong government of India gathering into its own hand and controlling all the reins. But I would ride local governments on the snaffle, and not on the curb, and I would do all in our power to consult their feelings, to enhance their dignity, and to stimulate their sense of responsibility and power."

‡ The Finance Minister Laing observed, in his budget speech of 1862-63: "If this great empire is ever to have the roads, the schools, the local police, and other instruments of civilisation which a flourishing country ought to possess, it is simply impossible that an imperial government can find either the money or the management.........It is of the first

[*Continued on p. 443.*

cordially supported the suggestions of Sir R. Strachey in the same direction, though the time does not seem to have been ripe until the administration of Lord Mayo to carry out the reform.

III.—Lord Mayo's Scheme of Provincial Finance

Convinced that without an ample measure of liberty and resources, the local governments could be expected neither to economise nor to undertake with enthusiasm works of local improvement; satisfied that the Government of India was incompetent to judge of local requirements and yet bound to interfere in local affairs so long as it alone was responsible for the finances of the entire country; impressed with the belief that unseemly squabbles in the conduct of the Government would be as unavoidable as they were undignified, Lord Mayo, in his resolution dated 14th December 1870, proceeded to define the principles of a scheme of financial decentralisation. The need for maintaining a stong central government was recognised by Lord Mayo and his colleagues to be too elementary and imperative to admit of discussion. The scheme of decentralisation they sought to formulate was, therefore, one purely of administrative convenience, and not on any admission of the principle of federalism in the governance of India. It was found to be more convenient to entrust to the local government branches of administration which were obviously suited to local handling. For a lump sum grant of £4,688,711 a year handed over to the provinces, the marginally noted heads of services were made over to the provincial governments. This grant was less by £330,801 than that assigned to the provinces for the same services in 1870, the grant being calculated on the basis of average expenditure of the several provinces in the preceding five years. It was distributed as noted in the margin among the various provinces, again on the basis of the requirements of each province as shown by the accounts of the Government of India, after certain adjustments had been made. The provincial governments were given the departmental receipts from these sources, but if the grant did not suffice they must depend on their

Jails	Printing
Registration	Roads
Police	Civ. Buildings
Education	Miscellaneous
Medical	Public Improvement

	£
Oudh	205,948
Central Provinces ...	261,263
Burma	275,332
Bengal	1,168,592
N. W. Provinces ...	640,792
Punjab	576,221
Madras	739,488
Bombay	880,075
Total ...	4,688,711

Concluded from p. 442]

importance to break through the habit of keeping everything in dependence on Calcutta, and to teach people not to look to Government for things which they can do far better for themselves......... It is most desirable to break through the system of barren uniformity and pedantic centralisation, which has tended in times past to reduce all India to dependence on the bureaus of Calcutta, and to give to local governments the power and the responsibility of managing their own affairs."

own resources.* While refusing to increase these grants, the Imperial Government undertook not to diminish them except in some extraordinary emergency, and even then not without previous consultation with the governments affected. The local governments, moreover, were given, what perhaps they most appreciated, a free hand to make their own appropriation for the several heads within the limit of their assignments. The various items disappeared from the Imperial Accounts, their place being taken by the single item of "provincial services." If a local government could not within a year exhaust its assignments, the amount would not lapse but be carried forward as a balance to its credit. The provincial governments were enjoined to adopt the budgetary procedure on the lines of the imperial government in respect of the services assigned to them.

The creation of provincial services did not, however, deprive the Government of India of its general right of supervision and control. The Resolution under review carefully lays down the conditions of this scheme of tentative devolution. Without the previous sanction of the Government of India

(1) no local government could create any new post with a salary of over Rs. 250 a month, or add to the salaries and allowances of any existing post of a like amount;

(2) no new class or grade of officers could be created or abolished, or its pay raised;

(3) the pay and allowances of an officer doing duty in a province, but paid by the imperial government, could not be increased by the local government over the scale sanctioned by the supreme government;

(4) no moneys could be removed from the public treasuries for investment; and

(5) no services rendered to other departments at the cost of departments then made over to the local governments could be diminished.

From these changes Lord Mayo and his Government expected to obtain the much needed relief for the imperial exchequer without in any way weakening the authority of the supreme government. The Viceroy also hoped that there would be no feeling of a separation of interests, but rather one of greater harmony owing to an increase in the independence and responsibility of the local governments.

IV.—Extension of the system under Lord Lytton

The plan worked out by Lord Mayo suffered from several weaknesses. The assignments made to the various provinces were each on the basis of the actual expenditure of every province under a given head. This assumed that the actual expenditure represented the real needs of the province, though

* Lord Mayo, in his speech before the Legislative Council, on March 18, 1871, observed: "It is impossible to prophesy or say at present what can be done in the far future; but I would be misleading the local governments if I were not to say that it is our opinion that these sums are now fixed at an amount which cannot be exceeded for at least a number of years". The resolution, however, adds a footnote to para 14, saying, "If it will be found when the accounts of the year 1870-71 are made up, that the actual expenditure during that year for the official postage of the services affected exceeds the amount of the grants for that purpose, then the several assignments will be, once for all, increased by the difference."

the provincial governments had all along protested against their local projects being handicapped for imperial considerations. The scheme of Lord Mayo ignored altogether the indisputable fact that there were gross inequalities as between the provinces in the matter of grants and burdens, and that a system which tended to perpetuate these inequalities cannot prove uniformly acceptable. In defence, it could only be urged that if the Government of India had started to find out a really equitable basis of distribution, it would never have been able to evolve any scheme of decentralisation. The *status quo* of each province was the only available basis to adopt, leaving the undoubted inequalities to be removed by a readjustment of local burdens in the future. Another criticism that might well be urged against the scheme is that it gave no interest to local governments for exercising diligence in revenue collections. It was notorious that considerable leakage took place in such important heads of revenue as stamps or excise or customs. The provincial governments, not interested in revenues, did not perceive the loss to the treasury through such leakage. The scheme had, no doubt, accomplished the main objects of its authors; there was greater harmony between the imperial and provincial governments, and the latter were enabled to commence several schemes of local improvement. The great aim of economy also was accomplished, in that the process of continuous growth was arrested, while the expenditure was directed to more useful channels.* But the central defect noted above made the system shorn of many other advantages that might reasonably be expected in the shape of improvement of revenues and the consequent avoidance of unnecessary taxation which would otherwise have been necessary.

Recognising these defects, the next step forward was taken in 1877 under Lord Lytton, when all the remaining services, except those directly administered by the imperial government, were made over to the provincial governments along with their connected receipts. Formerly, the income of the local governments was derived from a grant or assignment, which, though not absolutely fixed, was incapable of appreciable expansion. The new services transferred in 1877 were those of land revenue, excise, stamps, law and justice, general administration, stationery and printing. For their administration no lump-sum grant was made, but a share given in some specified heads of revenue, which, without local diligence suffered grievously from evasions. The principal heads of revenue thus shared were: excise, stamps, law and justice, and some other items varying from province to province. The license tax and some railways were also made over. The arrangement was that the revenue from these sources was to be taken by the provincial governments; but if they showed any surplus over the

* Between 1863-4 and 1868-9 the charges for these services had grown from £5,112,000 to £6,030,000 or about £200,000 a year. In 1870-71 Lord Mayo's Government reduced these charges to £5,197,000. In 1876-77, the expenditure on all the assigned services showed practically no change from 1870-71, thus showing that an effective stop had been put to the yearly increment. "When the figures were examined in details, they were still more satisfactory, for they showed that there had been a reduction of expenditure on nearly all heads excepting 'Education' and 'Medical'". Strachey, op. cit. p. 142.

estimated figure from these heads in each of the provinces, the imperial government should be given one-half, while in case of deficit the same authority should be made to bear an equal proportion. This did not give any power of fresh taxation to the local governments,* nor change any of the conditions of general supervision and control laid down in Lord Mayo's Resolution.† In carrying out these changes, since the arrangement with each province was different, the system of making separate contracts was for the first time adopted; and that the contracts may not stereotype what might prove to be an unfair arrangement, they were concluded for five years only, in the first instance.‡ Under these arrangements the total provincial revenues amounted in 1880-81 to £10,000,000 in addition to a lump-sum grant from the imperial government of £4,250,000, not counting the strictly local income of £3,000,000.§ Without taking into account the last item, the provincial governments obtained control over more than 20 per cent. of the total revenues of India, and most of the ordinary services. Within limits, they were made independent of the imperial government, and free to expand as they chose.

V.—Improvements by Baring and Ripon

The settlements made by Lord Lytton and Sir J. Strachey had made different provisions with different provinces, mainly because the settlements had been concluded at different dates. In view of the differences in the financial position of the different provinces, too great an insistence on uniformity would have contradicted the fundamental principle of the policy. Still there was room for a greater co-ordination, if only for the sake of avoiding a needless show of discrimination. As the experience of the new arrangements began to accumulate, it became manifest that the share reserved for the imperial government was not in every case all that it might have been;

* "What we have to do is not to give to the local governments fresh powers of taxation, but, on the contrary, do all that we can to render fresh taxation unnecessary, and to give to these governments direct inducements to improve those sources of existing revenues which depend for their productiveness on good administration." *Financial Statement*, 1877-8 Sir J. Strachey.

† "The Governor-General in Council will not relinquish his general powers of supervision and control, but his excellency will, as far as possible, avoid interference with the details of the administration of the transferred revenues and services, and any embarrassment of provincial finance."

‡ In the settlement or contract, made with Assam and Burma in 1879, all the revenue and expenditure which could possibly be treated provincially were made over to the province and for the balance a fixed share of the land revenue, forests and other items was entrusted to the province. The Madras Government did not come within the arrangements made in 1877-8. See Strachey op. cit., p. 143.

§What Strachey contemplated by way of revision has been thus described by himself:—

"The revenues and charges arising from tributes, salt, opium, allowances and assignments, the administration of the post office and telegraphs, the Political Department, the East Indian Railway, the Guaranteed Railway Companies, and all items recorded only in the accounts of the central government, would have remained wholly imperial. The revenues from forests, excise, and assessed taxes, stamp and registration, and the import duties on liquors, would have been shared equally between the local and central governments. Each local government would have received a fixed proportion of the net land revenue to make good the difference between its assigned revenues and expenditure." Op. cit. p. 146.

while the interest accorded to the local governments in the great branches of revenues, like the land revenue or forests, was not substantial enough. If he had had time to revise the settlements, Strachey himself intended to make the modifications on the lines suggested above. As it was, the changes were carried out by Major Baring under Lord Ripon, than whom India has not yet had a Viceroy more genuinely interested in the progress of local institutions.* The quinquennial settlements made in 1882 abolished the corner-stone of Lord Mayo's original scheme,—a fixed lump-sum grant to the provinces, and instead made over all the revenues derived from specified sources like civil departmental receipts or the income from civil buildings. As regards the other heads, which had previously been transferred, forests and registration were divided between the two governments, for the most part in equal proportions. The balance still remaining unfavourable to the provinces was made good, not by a lump sum as before, but by a fixed share of the land revenue. The general result of these settlements of 1882 was that the revenues of the provincial governments were for the next five years made up of the marginally noted sources. With regard to the extraordinary charge of wars and famine relief, it was settled that no demand was to be made on provincial governments except in case of a disaster so abnormal as to exhaust all the reserves of the supreme government, and to necessitate the suspension of the entire machinery of improvement throughout the empire. In the Afghan War, demands had been made upon provincial resources which had left them entirely inadequate for ordinary administration. It was to guard against such unusual demands which, when made, would upset all calculations made by the provincial governments for their programme of improvement, that a definite pledge was given. In the case of famine, also, the imperial government undertook to come to the rescue of provincial finance, as soon as it was evident that the famine was severe, and that it would embarrass the resources of the provincial governments, without regard to the actual amount spent. Besides, as in the imperial budget provision was made every year of a million sterling for relief of famine, it was not incumbent on the provincial governments to accumulate any special reserve on that account. The provincial governments thus obtained a much greater measure of independence than had ever been the case before.

	£.
1. Wholly provincial heads...	4,000,000
2. Revenue from divided heads	8,000,000
3. A varying proportion from certain heads	23,000,000
4. A nominal proportion from others	7,000,000
Total ...	42,000,000

VI.—Other Changes and the Financial Committee of 1887

The working of the contracts made in 1882 disclosed certain points of weakness which were attempted to be modified in the 20 years that

* Said Major Baring *apropos* of these changes :—

"One result of the Provincial arrangements concluded in 1882 was, that of the four peculiar dangers to which the finances of India were exposed, *viz.* war, a diminution of the opium revenue, fall of exchange, and famine, the first three had to be met by the Government of India, and only the fourth was felt by the local governments."

followed, in one way or another. From 1881 to 1884 the local government had abundance of funds, as much because of the great prosperity in the general finances, as from the accumulated balances to their credit. During the Afghan War the Imperial Government had been obliged to enjoin restrictions in provincial expenditure, and to demand a contribution of £670,000 from the provincial governments. This was now returned, and the restrictions were removed. The heavy expenditure of the three following years displayed a certain amount of wasteful enterprise which the imperial government wanted to check. If in the new contracts to be made in 1887 the provincial revenues did not keep up to the scale of these three years' expenditure, it would involve a most undesirable element of fluctuation. Hence, from April 1st, 1884, it was required of every provincial government that it should maintain with the imperial government a prescribed minimum balance as shown in the budget estimate; and under no circumstances was this balance to be allowed to fall below the minimum. In 1887, when the contracts of 1882 came to an end, the Government of India appointed a financial committee to consider the possibilities of retrenchment, in view of the heavy fall in exchange combined with an increase in the army of 30,000 troops. The result of the revision of the provincial contracts was a transfer of Rs. 64 lakhs from the increased receipts in the provincial heads of revenue to the imperial government. Even if we make an allowance for the slight increase in provincial grants, the net gain from revision of the contracts to the Imperial Government was Rs. 55 lakhs. The same operation was repeated for the same reasons in 1891-92 with a gain to the Imperial Government of Rs. 46'63 lakhs. The accumulated balances of the provincial governments were taken up by the impoverished Imperial Government in 1887, and again in 1890, though in the following year the "loan" was refunded.*

The Committee of 1887 had, however, suggested radical modifications of the whole system of provincial settlements. In a note submitted by four members of the Committee,† they recommended :—

Besides removing the perennial cause of irritation against the high-handed manner in which the Imperial Government resumed the balances of

* The balance resumed represented 25% on the increased revenue, that accrued to the provinces during the currency of the arr.ngement which expired in 1891-92. The local governments necessarily protested against such resumptions of the balances they had built up by suffering privations themselves. The following extract from the speech of the Lieutenant Governor of Bengal in the supreme Legislative Council represents clearly the local view on the matter. "I must say I deprecate the way in which these quinquennial revisions have too frequently been carried out. The provincial sheep is summarily thrown on its back, close clipped and shorn of its wool, and turned out to shiver till its fleece grow again. The normal history of a provincial contract is this :—two years of screwing and saving and postponement of works, two years of resumed energy on a normal scale, and one year of dissipation of balances in the fear that, if not spent, they will be annexed by the supreme Government directly or indirectly, at the time of the revision." Budget Discussion, 1896-97.

In 1894-95 the same course of resumption of provincial balances was adopted, followed in the next year by a refund.

† These were: Sir Charles Elliot, President; Sir William Hunter, Mr. Justice Cunningham, and Mr. Justice Ranade.

the provincial governments, they would secure to the local governments half the normal growth of their provincial revenues, thereby enabling them to keep up a continuous policy of internal improvements. While unable to secure complete equality of the burdens of the imperial expenditure as between the various provinces, their suggestions yet secured to those provinces which contributed less than half their revenue to the imperial exchequer, an exemption from the liability to meet imperial demands, if need be, by reducing their own expenditure, with a view only to afford relief to those who contributed more than half. If the Committee's recommendations had been carried out, the then existing level of local expenditure would have been left untouched. On the other hand, the effect of paying half the increase would tend in course of time to equalise the burdens. But the greatest advantage of the proposals lay in this, that while they made ample provision for the needs of the Imperial Government, they imposed some sort of check upon its spending propensities. Besides leaving to that Government the entire growth in its own sources of revenue, they gave them half of the increment in the provincial sources, and a power to demand further contributions if needed. The scheme was based on the hope that in normal times more than half of the provincial revenues would not be applied to non-provincial purposes.

These recommendations the Government of India did not accept on the ground of increased military needs and exchange troubles preventing any surrender on their part of a possible accretion to their resources. In 1897 was made the last quinquennial revision under the old principles. An estimate was made of the expenditure in each province on all the services with which the provincial government was charged; an adequate proportion of the provincial revenues was set aside for that purpose. The provincial governments, generally speaking, retained the whole of the receipts from provincial rates, courts of law, jails, police, education, medical and local marine services, pension contributions, and minor irrigation works, certain state railways and major irrigation works, buildings and roads, stationery, etc.; ½ of the stamps revenue; ½ of the assessed taxes, forests and registration receipts; ¼ of excise; and ¼ (generally) of the land revenue. Out of this they had to meet the expenditure on most of these heads, and a share of collection corresponding to the proportion they received, except in the case of land revenue, of which the whole cost of collection was borne by the provinces, except in Bengal. Within the limits of their resources, the provinces were also made responsible for famine relief, some political charges, and miscellaneous expenditure. The total revenue assigned to them was, in 1901-02, Rs. 25·12 crores, while the total collections, in which they were at all interested, amounted to Rs. 46·33 crores, nearly 50 per cent. of the gross revenues of India.

VII.—Thirty Years of Provincial Finance

We have now briefly reviewed the gradual evolution of a system of financial decentralisation, which, without being based on any considered principle of division or co-ordination, had nevertheless in thirty years,

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effected considerable economies. During this period the principles which had originated the system, the need for administrative convenience, remained substantially the governing idea of the whole arrangement. /The revision of contracts, the resumption of increments in revenues by the Imperial Government irrespective of the needs of the provincial governments; the demand for special contributions, were all indications of the old idea of unchallenged supremacy of the central government./ Strachey had observed in one of his financial statements that the one thing necessary for India was a strong central government; and it is but to be expected that such a person encouraging the system of local finance would naturally do so only because he considered it an excellent means of adding to the strength and importance of the supreme government by freeing it from unseemly brawls. The very tests by which the success of the system was judged were unavoidably coloured with the taint of the original principles. Thus it was observed again and again that the system had helped to economise by keeping down expenditure. Once you accept the principle that saving in provincial expenditure was a good test of the success of financial devolution, there could be no logical ground to quarrel with the resumption of unspent surplus and obvious increment by the Imperial Government whose needs were unquestionably to dominate the situation. In that view of the scheme of provincial finance, the fact that the bulk of the heads of internal expenditure had been made over to the local governments, and that any saving therein could be only purchased at the cost of efficiency in internal administration, would have no influence on the situation. The Imperial Government had delegated these functions to the local governments, not so much because they admitted the suitability of the local authorities in administration, but rather because they felt their inability to effect the desired economies themselves. Those, therefore, who advocated greater independence for the provincial governments and wider margin of discretion in outlay were arguing on an assumption which the Government of India did not admit to be the basic consideration in the arrangement. Hence the futher contention about the distribution of the imperial burdens on the various provinces being without any intelligible principle of ability, population or resources of the provinces, was based on a view of the case not permitted by the authorities, however sound it may seem in theory.* There really could be no other test than

* In his evidence before the Welby Commission, the late Mr. Gokhale vigorously criticised the system of provincial finance as it was in the closing years of the last century. He gives two tables from the calculations made by Sir J. Westland to show how disproportionate was the burden on the different provinces.

The percentage of revenue surrendered by each province to the Supreme Government:—

Indian Districts	26%
Central Provinces	56%
Burma	58%
Assam	51%
Bengal	68%
N. W. Provinces	76%
Punjab	45%
Madras	52%
Bombay	46%

The contribution of each province per 100 of population:—

	Rs.
Central Provinces	710
Burmah	3,120
Assam	970
Bengal	1,070
N. W. Provinces	1,770
Punjab	820
Madras	1,230
Bombay	1,550

[Continued on p. 451.

economy, because there was no basis but convenience of the supreme government. The provincial governments, therefore, necessarily got the worst in every reshuffling of the cards, because from the outset they were debarred from having any trumps. Claims on account of war, of opium, of exchange were all reserved for the Imperial Government, who could, therefore, cajole or coerce at its will. As the system was never meant to constrain the Imperial Government, it was idle to complain that while provincial expenditure, which, in proportion as it increased, would have benefited the country,—was rigorously kept down, the imperial expenditure went on increasing unchecked in fearful proportions. In the eighties, the Government of the United Provinces tried with success the experiment of pledging its own credit for a guarantee to locally subscribed capital for the construction of a local railway of a promising character. As the venture proved a success, the central government felt it to be a menace to its own unchallenged position. The Secretary of State was, therefore, at once made to declare that all borrowings, however and by whomsoever carried out, must be made over to the central government to be distributed by them as seemed best to them.*

VIII.—The Quasi-Permanent Settlements of 1904

So long as the Government of India was beset with the bogey of exchange and the nightmare of famine, it was impossible to make it perceive the true principles that ought to regulate provincial finance. It was in vain urged on them that the constant dread of revision was needlessly interfering with the continuity of policy in projects of provincial development. They only saw that the provinces could build up respectable reserves, which they were, towards the end of the contract, in a hurry to spend. And, since they often found good reason to consider the hasty expenditure of some provinces as a needless piece of extravagance, they felt themselves justified in taking up the surplus for their own pressing needs, rather than suffer it to be wasted. They could not see that their own revisions were to blame in stimulating such provincial extravagance; since the provinces could not frame any schemes, unless they were certain of the ways and means; and they must be allowed time to prepare and mature their plans before commencing operations. But that those plans may not be extravagant, and those operations may not be hurried, the provincial governments must be assured that their balances will not be encroached upon, nor their assignments curtailed, merely because of the size of their balances.

When, however, the exchange trouble was over, and famine relief more a matter of well-defined scientific policy, the Government of India were

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"These figures" he says "are sufficient to show the totally arbitrary character of the present contracts. The fact is that these inequalities are a legacy of the pre-decentralisation days, when the expenditure of different provinces was determined..............not by the resources of those provinces, but by the attention that their governments succeeded in securing from the central government."

* Cp. Strachey, op. cit. p. 151 *et. seq.*

in a better frame of mind to consider the claims of the provinces. They were not, indeed, going to surrender their right to revise the contract, or resume the surplus if their own abnormal needs demanded such a course.* But within that limitation, they were willing to grant a reasonable continuity in policy and resources to the provincial governments. The principles guiding the new settlement were: (1) The local governments must be given a more permanent interest in their revenues and expenditure. (2) The assignments to them must include a slightly smaller share of growing revenues. (3) The share of revenues assigned to each province separately and to all provinces collectively should bear approximately the same ratio to the provincial expenditure as the imperial share of growing revenues bears to the imperial expenditure.† With some minor exemptions, the heads of revenue, which were wholly imperial, wholly provincial, or divided, were left in the same stage; but the share given to provinces was altered in conformity with the principles stated above.‡ As the aggregate provincial expenditure was found to be rather less than $\frac{1}{4}$ of the total, and the aggregate imperial expenditure $\frac{3}{4}$, these proportions were taken as the basis for the division between the provincial and imperial shares of revenues. This change must take into account (*a*) the need of backward provinces, (*b*) the projects of special reform suggested by the supreme government, and (*c*) the yield of heads of revenue which were wholly imperial or wholly provincial.

These changes in principle were first applied in 1904. The old contracts of 1897 would have normally terminated in 1902, but they were specially prolonged to allow of these changes being made. The net result of the changes was, that in the four provinces with which the new settlements were then made, the imperial contribution to the provincial revenues was

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* Announcing the change in principles and arrangements in the *Financial Statement* of 1904–05, the Finance Minister observed:

"It is evident that the Imperial Government cannot undertake any absolute obligation to maintain at all times a definite proportion between the share of increase of revenues, assigned to provincial administrations, and that which it is necessary to retain to meet the growth of Imperial expenditure; and it must always reserve the right to make a special, temporary, or more permanent reduction from provincial revenues, if the exigencies of State should require such measures. It must also be borne in mind in apportioning shares of revenue to different provinces, that a larger proportionate assignment is required in the more backward provinces than in those which are older established or more highly developed." (Para. 39.)

It must be observed that these two principles are somewhat incongruous and inconsistent. The clinging to the absolute preference to imperial needs is a survival of the past, linked to the more intelligent principle of the needs of a province in the future.

† See para. 211 of the explanatory *Memorandum to the Financial Statement of 1904–05.*

‡ The heads of revenue and the corresponding expenditure were to be shared—

(1) In Bengal, United Provinces, Bombay, and Madras, $\frac{3}{4}$ Imperial and one-fourth provincial.

(2) In the Punjab and Burma $\frac{5}{8}$ Imperial and $\frac{3}{8}$ provincial.

(3) In the Central Provinces and Assam half to half.

Para. 212, Ibid.

increased by Rs. 23,89,000 per annum.* Finally, in order that the local governments may start the new settlements under favourable conditions, the Government of India sanctioned the following initial grants, Bengal and Madras Rs. 50 lakhs each, United Provinces 30 lakhs, and Assam 20 lakhs.†

The general principles of these arrangements were summed up by the Financial Secretary before the Royal Commission on decentralisation as follows :—

(1) The Government of India retains certain administrative services, which it is inexpedient to hand over to provincial governments. They, therefore, reserve the revenue from these sources, and such a share of other public revenues as would suffice for the expenditure falling on them.

(2) The remaining administrative services being entrusted to provincial governments, each of them receives an assured income independent of the needs of the Government of India, and sufficient for the normal expenditure of the province,

(3) This income is given in the form of a defined share of the revenue which the local government collects, in order that the local government's resources may expand along with its needs,

(4) As far as possible the same share of the chief sources of revenue is given to each province to ensure a reasonable equality in treatment,

Under these arrangements the Government of India received the whole of the revenue from opium, salt, customs, mint, railways, posts and telegraphs and tributes from Native States, while registration fees and departmental receipts from police, education, law and justice belonged exclusively to the provincial governments. Land-revenue, excise, stamps, income tax and forests were divided between the two in stated proportions, generally equal,

* The details are :—

		Rs.
Bengal Provincial assignment less by	... ...	5,00,000
Madras ,, ,, more...	... ...	16,56,000
United Provinces ,, ,, ...	... ...	8,25,000
Assam ,, ,, ,, ...	... ...	4,08,000
	Total ...	23,89,000

† In addition to these grants, special grants of Rs, 1,62,65,000 were sanctioned for 1903-4 and distributed as follows :—

Province.	Grant for Education	District Establishment 1903-4	Special purpose 1904-5	Special public objects. 1904-5
	Rs.	Rs.	Rs.	Rs.
Central Provinces ...	2,00,000	1,90,000	3,00,000	1,50,000
Burma	4,00,000	...	...	3,00,000
Assam	1,00,000	1,11,000	...	1,50,000
Bengal	10,00,000	...	50,00,000	5,00,000
U. P.	5,00,000	2,26,000	3,00,000	3,00,000
Punjab	4,00,000	1,36,000	20,50,000	2,00,000
Madras	8,00,000	3,50,000	...	3,00,000
Bombay	6,00,000	3,50,000	10,52,000	3,00,300
Total ...	37,00,000	13,63,000	87,02,000	22,00,000

as also the receipts from the larger irrigation works.* Minor irrigation receipts were made almost wholly provincial, as also those from civil buildings. The divided heads supplied the bulk of the provincial revenues.

As regards expenditure, imperial revenues were made wholly responsible for those items of expenditure which were in connection with the sources of revenue reserved for the imperial government, and provincial revenues were responsible for expenditure incurred within the province in connection with land-revenue, including district administration, registration, law and justice, police and jails, education and medical, stationery and printing, and provincial civil works. Charges in connection with stamps, excise, income-tax and forests were equally divided, while the proportion of irrigation charges borne by each was determined by the revenues. Scientific and minor departments administered by the provinces were charged to the provinces, as also the Native States under their control. Ecclesiastical charges and the bulk of the political expenditure were shouldered by the Imperial Government. As these charges of the provincial government were in excess of their revenues, the difference was made up by a **fixed assignment** under the land revenue. The ordinary revenues of the provinces were supplemented in each case by an initial grant, and a special grant to carry out the reforms under the heads of police, education and agriculture. Finally, new arrangements were made for the relief of famine. Every year the Government of India set aside a specific amount, roughly equal to the famine liabilities of a given province on an average, to the credit of the province concerned, the sum thus reserved being subject to a maximum. When a famine did occur, the whole of this reserve might be drawn upon by the province affected, without touching its normal resources. If this credit did not suffice, the rest of the expenditure was to be divided equally between the imperial and the provincial governments, instead of being debited wholly to the latter. The imperial resources might be indented upon still further if the prescribed provincial balance left was below half its limit.†

If these settlements are examined carefully we would find that there is a distinct change of principle. Instead of mere administrative convenience to the Imperial Government, the considered needs of the province regulate the amount of revenues assigned them.‡ Instead of economy or retrenchment in

* Irrigation receipts were first introduced in connection with the settlement made with Bombay and the Punjab in 1905. As these provinces had suffered severely from plague, and their finances consequently in a chronic state of deficit, their settlements were relatively more liberal. The assignment was increased by 36·92 lakhs a year for Bombay, and 16·51 lakhs for the Punjab. The provincial shares of divided revenues were so adjusted as to give a net revenue increment to Bombay of Rs. 8·55 lakhs, and to Punjab of Rs. 6·78 lakhs. An initial grant of 50 lakhs was made to each.

Similar settlements were made with the Central Provinces in 1906 and with Burma in 1908.

† See the Famine Insurance Scheme elaborated in the Financial Statement of 1907-8 by Sir James Meston.

‡ "The distribution of revenues between the provincial and central governments was made, except on occasions of grave emergency, with direct reference, not to the needs of the Central Government, but to the outlay which each province might reasonably claim to incur upon services which it administered. The first step taken in concluding a settlement was to ascertain the needs of the province and assign revenues to meet them, the residue only of the income of the province coming into the imperial exchequer." *Report of the Royal Commission on Decentralization*, 1909.

the provincial heads of expenditure being regarded as the test of the success of the system, the extent of development in the heads affecting the welfare of the people like education and sanitation was an admitted factor determining the increase of grant. The assignment was for all practical purposes permanently fixed. The supreme Government had, indeed, reserved their right to revise the settlement; but they had agreed to exercise that power "only when the variations from the initial relative standards of revenue and expenditure were, over a substantial term of years, so great as to result in unfairness either to the province itself, or to the Government of India, or in the event of the Government of India being confronted with the alternatives of either imposing general taxation, or seeking assistance from the provinces." * The old complaint about want of continuity in provincial programmes was to a large extent avoided under the new arrangements. The method of distributing the total revenues between the imperial and provincial governments showed that the imperial needs were of second rate importance. The portion available for imperial purposes was taken in the shape of a share of a few of the main heads of revenue, called the "Divided Heads." But as the distribution of these heads could never be so adjusted as to yield to the province, besides the revenues from the sources wholly provincial, a sum exactly equal to their expenditure, equilibrium was brought about by means of fixed cash assignments, a deficiency being remedied by an assignment to provincial revenues from the imperial share of the land revenue, and an excess by the reverse process. The day had not yet dawned when the provinces would be entirely free from the controlling authority of the supreme government, or from their penchant for interference in provincial administration by suggestions, if not instructions; though, henceforward, whenever they made new suggestions, which would involve additional outlay by the provinces, they would contribute sufficiently to facilitate the execution of their suggestions. The provinces were also not free to manipulate as they pleased their resources of revenue, as the general rate of taxation was determined exclusively by the supreme Government; but within the shares made over to them, the provinces obtained a degree of autonomy which was unknown before. They could not alter the general trend of expenditure, or make any changes involving additional outlay of over a prescribed amount, except with the sanction of the imperial government. The provinces could, at most, only make suggestions. The imperial government could still issue directions. The imperial government could always excuse themselves on the plea of their duty to look to the interests of all provinces alike, whenever they felt disposed not to accept the suggestions made by a subordinate government. The provincial governments must carry out the instructions of the imperial government, particularly as the latter were always able to back up their directions by specific additional grants. As these grants were earmarked for stated purposes in advance, the provincial governments could have no discretion in utilising them. Altogether, the decentralisation of finance, as it obtained between 1904 and 1912, afforded a spectacle of a

* *Ibid.*

conflict between the old principle of observing the convenience of the imperial government and the new ideal of encouraging the development of the provincialised services. Public opinion in India was beginning to take up the cause of the latter, not so much from a different conception of the governance of India, as from a belief that, with greater independence accorded to the provinces, the representatives of the people would be able better to check the smaller and less powerful provincial governments.*

IX.—Permanent Settlements of 1912

Before the Royal Commission on Decentralisation which reported in 1909, the system of the quasi-permanent settlement of provincial finance was much criticised. The chief points of criticism were:—

(1) The system of "divided heads" was injurious to provincial development.

(2) The practice of fixed assignments made the system inelastic.

(3) The spasmodic grant of lump sums was productive of unnecessary interference.

(4) The various settlements showed great inequalities *inter se.*

(5) Powers of taxation and borrowing should be granted to the provinces.

The first two are interdependent. As the needs of a province inevitably grow, any element in the local resources to meet these needs, which is incapable of expansion, must inevitably tend to make the provincial finances disorganised. The system of making fixed cash assignments in order to bring about equilibrium in provincial revenues and expenditure represented just that element of rigidity which could be avoided only if the principle of "divided Heads" was abandoned, and its place taken by a surrender to the provinces of the normally growing heads of revenue sufficient to meet the growth in expenditure. It may, indeed, be conceded that, even under the existing system, as the revenues made over are capable of growing in equal proportion to the normal growth in expenditure, the existence of a portion of the Revenues which is inelastic will not matter a great deal. "It is only when the normal increment of revenue falls short of the legitimate increase in expenditure that the fixed assignment becomes an evil and a danger." † If the proportion of the fixed assignment to the total revenues in the hands of a province is unduly large, it should, according to the recommendations of the Decentralisation Commission, be converted into shares of growing revenues by gradually surrendering to the provinces the whole of the revenue

* See Mr. Gokhale's evidence before the Welby Commission, and before the Decentralisation Commission. He wanted Indian finance to be organised on a federal basis.

† Resolution on provincial finance, dated 18th May 1912, No. 27 F., para 5.

under heads which are now divided.* So the Government of India agreed to these suggestions, and laid down rules for the conversion of the fixed cash assignments into shares of revenues.†

The question of specific additional grants, which aroused so much acrimonious criticism at the hands of provincial governments before the Decentralisation Commission, originally arose because the Imperial Government insisted upon a scale of development by the provinces, which would have been inconsistent with the limited resources of provincial governments. The government of Lord Curzon had, contemporaneously with the settlements with the provinces, chalked out a grand programme of police and education reform, and agricultural efficiency, which required considerably more outlay than had been allowed for the settlements. As the central government were not prepared to upset their newly concluded settlements, the only means of accomplishing the projected reforms was to grant additional sums to the several provinces for specific purposes. In course of time this expedient came to be generally adopted by the imperial government whenever they had a sudden unexpected surplus, which they did not want for their own purposes, and would not use for the reduction of debt or remission of taxation. But whether the specific grant was made to carry out a specially pet project of the imperial government, or to admit the provinces into a share of unexpected prosperity, the central government always prescribed the objects for which alone the grant was to be used. "*Tant pis*" if the local governments could not see eye to eye with the imperial government as regards the importance of the object they selected to assist. /Since the provincial governments had, normally, no claim to such extra resources placed at their disposal by the bounty of the imperial government, the latter thought themselves justified in dictating the purpose to which alone the grant should be devoted. But this was regarded by the provincial governments as including an unnecessary amount of interference from above into local affairs, which they resented all the more because they had no voice in determining the exact amount they received from these grants. /The only justification that the imperial government could advance was that new lines of policy were often pressed upon them by public opinion, or by the example

* The Decentralisation Commission mentioned revenues from Excise and Forests as fit items which might be entirely provincialised. The Government of India made the forests revenue and expenditure wholly provincial in the settlement of 1911 in all provinces: excise revenue and expenditure were wholly provincialised in Bombay, and were made ¾ provincial in the Central and United Provinces, while the cash assignment was reduced in proportion to the growth in revenue from these changes. Other changes were that the land revenue was made half provincial in the Punjab, (which also got half a share in the major irrigation works) and ⅝ in Burma. See the resolution above referred to.

† The conditions laid down were:—

" Fixed assignments should be replaced by a share of growing revenue in the following circumstances only:—

(*a*) When an assignment is so large as to prevent the increment in revenue from keeping abreast of the legitimate and necessary growth of expenditure; and

(*b*) when the financial outlook of the moment justifies the abandonment of the necessary amount of growing revenues in exchange for the reduction of fixed charges." *Ibid.*

of the more advanced provinces, which it became necessary for the supreme government to commend to their provincial subordinates; and as the latter could not carry out these sudden developments from their ordinary resources the "system of doles" became inevitable. The only way to avoid ill feeling was to accept the recommendations of the Decentralisation Commission:—

(1) "The system should not involve any greater degree of interference by the central with the local government than at present exists.

(2) The grants should be given with due regard to the wishes of the provincial authorities.

(3) They should not necessarily be assigned for the same object in all the provinces."*

/ The objection on the score of interprovincial inequalities was admitted, but could not be remedied, by the imperial government. / The fact that at the time of making the quasi-permanent settlements, some provinces were more backward than the others; the fact that in the past some provinces had received better treatment and consequently established a higher scale of expenditure; all showed the historical origin of the system. / The inequalities, if any, were the result of the peculiar trend of development, rather than of any administrative partiality/ Besides, there was no satisfactory test of determining equality of treatment in the various settlements. The revisions, moreover, in the past, had favoured every time the weaker governments, and thus established a rough equity among them. "Taking the administrative equipment as a whole, the Government of India found it impossible to believe that inequality in settlements had gone far enough to starve one province in its necessities in order to load another with luxuries; and they considered it entirely unnecessary, in seeking a basis for permanency, to make any radical alterations in the existing settlements which have been evolved by the slow process of years."†

/ As regards the powers of taxation and borrowing claimed by the provincial governments, it must be admitted that without the liberty to tax

* In connection with the "system of doles" the Bombay Government had suggested that:—

(a) The doles should not be made, but instead imperial taxation remitted to an equal amount, to be reimposed if the provincial governments needed extra funds. As there was no immediate prospect of remission of taxation, the imperial government did not consider this sugestion.

(b) Instead of doles a share of land revenue be granted to the provinces. The imperial government agreed though this point was covered by their decision regarding the fixed assignments.

(c) Entire discretion should be given to the provincial governments as to the appropriation of these grants. The supreme government could not admit that the employment of the grant should, except in rare instances, be left to the discretion of the local Government which receives it. While they could readily agree to abstain from critical inquiry into the objects to which a dole is applied, they held that the cases in which it would be necessary to specify the general purposes of the assignment would be the rule rather than the exception. When, for example, considerable sacrifices have been incurred in order to raise money for education, they could not contemplate with equanimity its expenditure upon hospitals or bridges." *Resolution on Provincial Finance*, 18th May 1912, para. 6.

† *Ibid*, para. 7.

their local citizens, provinces cannot always meet the discrepancy between revenues and expenditure without depending on the imperial government for aid. Well might they urge that, for a country like India, the imperial government could command very few taxes which would be suitable for all parts of the country equally; and even when they were, their incidence must necessarily differ between provinces. The liberty, if given to the provinces, to tax their own subjects will go a long way to correct inequalities in the tax burdens, which the common taxes of the central government must necessarily involve. There may have been justification in the past when the local governments did enjoy powers of local taxation, within certain limits, for objects of local improvement. The old provincial rates, which have now ceased to exist, were abolished, not because they were remnants of provincial taxation, but because in conformity with their general policy of relieving land of all miscellaneous burdens, Government had decreed their abolition. On the other hand, there would be grave danger in conceding the right of taxation to the provinces, as it might quite possibly stimulate unwelcome provincial rivalries ending in fatal jealousies. So long as the Indian Government remains fundamentally an irresponsible bureaucracy, it would be politically inexpedient to grant these powers to irresponsible bodies of bureaucrats. The existing control by the Government of India is the only safeguard against an unjustifiable increase in the burdens of the people. Until, therefore, the advent of responsible institutions, there was nothing to be gained by a relaxation of the existing statutory authority of the supreme government; and, accordingly, the Decentralisation Commission suggested no change.* The powers of borrowing, if conceded to the local governments, were felt to be a menace to the success of imperial loans, as they both had the same market to tap. If the provincial governments needed extra funds for projects of great local utility, the imperial government were prepared to grant them overdrafts—temporary loans from their own balances. But access to the open market for purposes of local borrowing they refused altogether.

Under these rules the settlements made after 1911 were declared to be permanent. The governing condition was that a local government must not budget for deficit, unless it can satisfy the Imperial Government that the excess of expenditure was due to a special non-recurring cause. If the deficit involved a reduction of provincial balances, suitable arrangements must be made to bring them up to the prescribed minimum. If all the balance of a local government was exhausted, and an overdraft made upon the general balances, the overdraft was treated as a temporary loan subject to interest at a prescribed rate, and repayable in such instalments that the supreme government might direct. In future the interference of the

* "They fully recognise that such taxation is a necessary corollary of a fully decentralised system of finance; but pending the development of such a system, they consider that no useful purpose will be served by an attempt to define its proper scope or to lay down the critiria which it should satisfy. Financial autonomy for the provinces, if and when it arises, must carry with it the power of taxation." Resolution of May 18, 1912, para. 12.

Government of India would be restricted to the corrections in divided heads and the totals of revenue and expenditure. The extraordinary receipts of a provincial government must not be applied to ordinary expenditure, or to the repayment of a loan for extraordinary purposes, but only to such non-recurring objects or public works as the local government may determine upon with the advice of their council. In framing the provincial budget the attention of the government of India must be drawn to the existence of such special items and the use made of them.

CHAPTER II

Provincial Finance under the Mont-ford Reforms

I.—The System in 1920

Heads of Revenue.	Provincial Shares.	Imperial Shares.
	Rs.	Rs.
Land Revenue...	17,48,86,500	16,49,10,000
Opinm	...	4,58,13,000
Salt	...	5,87,16,000
Stamps... ...	4,37,70,500	4,66,86,000
Excise	13,15,59,000	5,04,40,500
Prov. Rate ...	5,17,500	1,500
Customs ...	...	20,02,86,000
Incom Tax ...	3,47,07,000	16,81,15,500
Forests... ...	4,75,06,500	27,85,500
Registration ...	84,90,500	85,505
Tributes ...	...	91,99,500
Interest... ...	50,76,000	4,94,85,000
Post & Telegraphs	...	8,57,52,000
Mint	...	1,95,48,000
Courts	62,29,500	3,15,000
Jails	49,36,500	12,67,500
Police	18,36,000	93,000
Ports	18,82,500	...
Education ...	47,53,500	1,14,000
Medical ...	15,51,000	21,000
Sanitation ...	33,000	1,66,500
Agriculture ...	21,84,000	1,92,500
Scientific ...	32,68,500	1,21,500
Superannuation	12,85,500	20.73,000
Stationery ...	9,07,500	6,60,000
Exchange ...	...	1,60,00,500
Miscellaneous ...	30,42,000	1,36,42,500
State Railways	19,500	30,83,09,000
Snbsidised ,,	...	22,65,000
Irrigation ...	4,36,42,500	3,88,36,500
Public Works ...	38,98,500	79,500
Military Receipts	...	2,38,09,500
Total ...	55,44,81,000	1,29,93,81,000

We may now examine the salient details of the system as it was on the eve of the constitutional reforms in 1920. The marginal table shows the distribution of provincial and imperial revenues. These figures are taken from the budget of 1919–20. They show that the aggregate provincial revenues were about 30 p. c. of the total, or 43 p. c. of the share of the imperial revenues. The heads which were wholly imperial were: opium, salt, customs, tributes, post, mint, exchange, and military receipts; railways are also largely imperial. Civil departmental receipts and those from public works seem to be largely provincial. The Divided Heads were : land revenue, stamps, excise, income-tax, forests, registration and irrigation, as also the miscellaneous civil receipts. Out of the total principal heads of revenue, the provinces get 44·25 crores, while the Imperial Government gets about 75 crores. In the total the provinces also got a grant of 2·72 crores from the imperial balance. On the side of the Expenditure, the figures are :—

		Provincial.	Imperial.
		Rs.	Rs.
1.	Direct demands on Revenue	11,18,89,500	5,75,11,500
2.	Interest	47,47,500	11,17,15,500
3.	Posts & Telegraphs	...	6,87,03,000
4.	Mint	...	42,67,500
5.	Civil Department	29,49,70,500	7,00,75,500
6.	Miscellaneous Civ. Charges	4,32,40,500	4,84,95,000
7.	Famine Relief	42,55,500	1,82,80,500
8.	Railways	1,200	21,70,21,500
9.	Irrigation	3,34,15,500	64,17,34,500

Of the total gross expenditure of £123,964,000, the provinces bore £38,606,700 or 31%, including 66% in the collection charges and other direct demands on revenue, 77½ p. c. of the civil departmental charges, 47 p. c. of of the miscellaneous civil charges, 19 p. c. of the famine relief charges, and 86 p. c. of the civil buildings and roads charges. The imperial government bore all the charges for the army, the debt, communications, and a small portion of the charges of the general civil administration.

The following table gives details by provinces :—

Province.	Opening Balance.	Revenue. (Revenue.)	Special Grant. (Revenue.)	Expenditure.	Closing Balance.
	Rs.	Rs.	Rs.	Rs.	Rs.
Madras	1,96,54,400	8,51,18,000	34,50,000	9,60,68,000	1,21,59,000
Bombay	4,61,26,000	10,10,97,000	27,30,000	10,36,55,000	4,62,98,000
Bengal	3,66,02,000	6,78,14,000	48,69,000	7,70,62,000	3,22,23,000
United Provinces ...	2,58,66,000	7,81,86,000	29,17,000	8,53,56,000	2,16,13,000
Punjab	2,23,35,000	5,70,95,000	17,55,000	6,02,28,000	2,09,57,000
Burma	1,42,54,000	6,24,56,000	14,44,000	6,63,50,000	1,18,04,000
Bihar and Orissa ...	1,45,04,000	3,25,89,000	20,99,000	3,76,52,000	1,15,40,000
Central Provinces ...	1,29,04,000	3,21,07,000	12,24,000	3,50,98,000	1,11,37,000
Assam	39,25,000	1,68,83,000	6,48,000	1,76,31,000	38,25,000
Total ...	19,61,75,000	53,33,45,000	2,11,36,000	57,91,00,000	17,15,56,000

The next table shows the growth in provincial revenues and charges during 20 years* :—

Year.	Revenues.	Expenditure.		Year.	Revenues.	Expenditure.
	Rs.	Rs.			Rs.	Rs.
1899-00 ...	22,55,32,733	22,22,31,058		1910-11 ...	40,28,26,688	37,34,08,657
1900-01 ...	23,49,26,706	23,18,90,025		1911-12 ...	42,89,58,927	41,44,22,673
1901-02 ...	25,10,95,497	24,86,47,449		1912-13 ...	49,85,11,026	43,08,00,270
1902-03 ...	24,87,50,983	24,31,11,032		1913-14 ...	46,48,36,768	46,90,80,061
1903-04 ...	27,42,84,849	26,94,31,673		1914-15 ...	45,58,30,312	48,86,82,595
1904-05 ...	26,02,66,420	25,58,86,290		1915-16 ...	46,61,07,363	46,41,43,270
1905-06 ...	28,59,34,827	27,42,91,517		1916-17 ...	48,54,46,240	44,94,86,707
1906-07 ...	32,51,62,149	31,46,58,685		1917-18 ...	50,28,76,687	47,19,90,863
1907-08 ...	32,76,15,794	34,29,33,578	R. E.	1918-19 ...	53,89,00,000	52,27,96,000
1908-09 ...	36,25,78,569	37,25,88,708	B. E.	1919-20 ...	55,44,81,000	57,91,00,000
1909-10 ...	37,60,81,158	36,26,70,625				

* The following are the figures for the post-reforms years :—

Year.	Revenues.	Expenditure.
	Rs.	Rs.
1921-22	70,43,03,736	79,16,25,556
1922-23	75,73,85,238	77,23,38,522
1923-24	78,85,09,389	76,09,28,660
1924-25	81,28,18,082	78,40,69,723

II.—The New Reforms and Decentralisation of Finance

The final stage in the evolution of the decentralisation of Indian finance was reached in the proposals for constitutional reforms submitted by the Secretary of State and the Viceroy in 1918, and fuller details thereon worked out by the dispatches and legislation following. The Report on Constitutional Reforms frankly assumes an entirely different standpoint,* and makes its proposal accordingly. The old idea of the central government being maintained in all its strength and prestige, enunciated so emphatically by Strachey in the seventies, and echoed as late as 1911 by Lord Hardinge's Government in the celebrated Delhi dispatch, seems to have—if not been abandoned—weakened perceptibly, and its place taken by the new ideal of provincial autonomy. As finance is the keystone of the arch of responsible government, it is no surprise to find that almost every shade of opinion, which at all professes to support the growth of responsible government in India, demands financial independence for the provinces and the entire separation of the resources of the central government from those of the provinces. The first requisite for such a separation is the abolition of the existing system of "Divided Heads" of revenue, and all the attendant troubles of making a proper division and avoiding too much interference on the part of the Government of India, looking to the needs of more backward provinces, etc.† The argument, that the inevitable precariousness of the most important heads of revenues is very considerably neutralised by spreading the risks over the different provinces under the system of divided heads, was not considered sufficiently strong by the authors of the report to upset their whole scheme. Cf the most important divided heads,—land revenue, stamps, excise, income tax and irrigation,—the reforms proposals make land revenue,‡ judicial stamps, excise and irrigation works wholly provincial, leaving general stamps and income-tax to be wholly Imperial.§

* "We start with a change of stand-point. If provincial autonomy is to mean anything real, clearly the provinces must not be dependent on the Indian Government for the means of the provincial development. Existing settlements do indeed provide for the ordinary growth of expenditure; but for any large and costly innovations, provincial governments depend on doles out of the Indian surplus. Our idea is that an estimate be first made of the scale of expenditure required for the upkeep and development of the services which clearly appertain to the Indian sphere; that resources with which to secure this expenditure should be secured to the Indian Government; and that all other revenues should then be handed over to the provincial governments." Para. 201, p. 130 of the report.

† The most considerable heads divided between the central and the provincial governments were: land-revenue, excise, stamp, income-tax and irrigation. The report on the constitutional reforms recommended the abolition of the divided heads.

‡ The Meston Committee on financial relations had allowed the general stamps revenue to be also provincialised, leaving income-tax to be an entirely imperial head. In the final arrangements, the Government of India has conceded to the Bombay Presidency the income tax receipts in so far as they exceed the standard collection of 1919–20 in that head and a further concession has been wrung since 1924.

§ As regards the provincial section of the land revenue, it was urged that such a course would involve a deficit for the Government of India. But the report meets this plea by charging famine and irrigation expenditure on the provincial governments. The authors of the report could not but see the advantages of land-revenue being provincialised, since it plays such an important part in district administration. The report adds:—"But it is just because divided heads are not regarded as merely a financial expedient, but are, and so long as they survive will be, viewed as a means of going behind the provincial governments to the Government of India that we feel sure that they should be abolished." (Para, 203, *Ibid.*)

Famine expenditure* was to be charged on the provinces, each province, liable to famine, being required to make allowance for this item on the basis of its past liability. The amount thus set aside must not be spent on ordinary purposes, but may be used to swell the balances or for some defensive purpose. If the distress should be too great for provincial resources, the Government of India may intervene; but their aid should take the form of a loan, permanent or temporary, according to the needs of the moment.†

If these proposals were adopted, the Government of India would be faced with a deficit, and the report decided to meet the deficit by "fixed contributions from the provinces." On the basis of the budget figures for 1917-18 the report calculated that after all the divided heads were abolished, and provision made for irrigation and famine expenditure in the provincial budget, the provincial surplus would be Rs. 15·74 crores, while the imperial deficit would be Rs. 13·63 crores. "We would propose to assess the contribution from each province to the Government of India as percentage of the difference between the gross provincial revenue and the gross provincial expenditure."‡

* "We have, indeed, been told that income-tax is merely the industrial or professional complement of the land revenue; and that to provincialise the latter while Indianising the former means giving those provinces whose wealth is predominantly agricultural an initial advantage over a province like Bombay." But the authors of the Report saw the inconveniences of provincialising income-tax for the sake of uniformity of rate as well as for not doubling the tax on enterprises registered in one province and earning their income in another. They held that equality of treatment as between different provinces must be judged on the whole settlements, not individual items of revenue.

† Para. 204, *Ibid.*

II. "We agreed that in fixing contributions it was undesirable and unnecessary to pay regard to the growing revenues of the provinces. We agreed also that the contributions should be of fixed amounts. We saw that equality of contributions was impracticable, because we have not a clean slate. In spite of the variations in income which result from the permanent settlements in some areas, stereotyped scales of expenditure have grown up, which makes it useless to attempt any theoretic calculations on which an uniform contribution from the provinces could be based." (Para. 206.)

‡ The following table, given in the report, para. 206, shows the amount that the different provinces would have to contribute if the principle given above were accepted :—

(In lakhs of rupees)

Provinces.	Gross revenue.	Gross expenditure.	Gross surplus.	Contribution.	Net provincial surplus.
	Rs.	Rs.	Rs.	Rs.	Rs.
Madras	13,31	8,40	4,91	4,28	63
Bombay	10,01	9,00	1,01	88	13
Bengal	7,54	6,75	79	69	10
United Provinces ...	11,22	7,47	3,75	3,27	48
Punjab	8,64	6,14	2,50	2,18	32
Burma	7,69	6,08	1,61	1,40	21
Bihar and Orissa ...	4,04	3,59	45	39	6
Central Provinces ...	4,12	3,71	41	36	5
Assam	1,71	1,50	21	18	3

On this the Government of India in their first Report Despatch observe :—" When we look at the result, however, its equity is obviously liable to attack. From Madras we shall be levying nearly five times as much as from Bombay; and from the United Provinces nearly five times as much as from Bengal." They accepted this principle of contribution at all because "no other device would leave each province with a surplus of its own, and consequently no other device is open to us." Para 61 of the Dispatch.

This manner of obtaining contributions is open to severe objection in that it makes the contributions of the different provinces so utterly unequal and without any correlation with any intelligible principle of the wealth or taxable capacity of each province. It is true that such a system was the one then in existence, though in a heavily disguised form; but that would be no answer to the plea that a responsible government should try to pay its way in the first place. The authors of the Report recognised the weakness of their position in this respect, and promised a more detailed consideration by the first statutory commission. The Government of India later on suggested that the first contributions be declared to be only provisional pending the evolution of the standard equitable contributions.*

In consonance with the general scheme of the Reforms, the Report conceded the right of taxation to the provinces, as well as the power of borrowing. With the provinces thus made independent of the Government of India, the latter could not be saddled with the financial solvency of the provinces. If the schemes of provincial development were not to be stifled for want of funds, the power of additional taxation was a necessary corollary. But that provincial taxation was not to conflict with imperial taxation, it would be necessary to specify what objects the provincial authority might tax, and what others the supreme Government might tax. The Report gives a certain number of reserved subjects for taxation to the provinces, and makes the Government of India a sort of a residuary legatee for the rest.† Within the scheduled list, the provinces would be free to tax, subject to a veto on the part of the Government of India, to whom, therefore, the proposal would have to be forwarded in sufficient time to see if it trenches upon their own preserves. Outside the listed subjects, too, the provinces might tax, provided they obtain the previous sanction of the Government of India:—

> "But this sanction would be withheld only if the proposal trespassed on Indian heads of revenue to an undue extent; or if the tax was a new one, and the central government itself contemplated imposing it as an all-India tax; or, if the proposals were, in the opinion of the Government of India, likely to lead to undesirable consequences which would affect its own responsibility."‡

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* "We recommend that the initial contributions should be recognised as temporary and provisional, and that steps should be taken as soon as possible to fix a standard equitable scale of contributions." Letter of the Government of India, dated March 5, 1919, para. 61, Cmd. 123 of 1919.

In any case the determination of the paying capacity of a province is far from easy. All that we can say with assurance at present is that we cannot justify the permanent retention of the criterion proposed in the Report, and that, after full inquiry, a standard scale should be fixed.

† Commenting on this proposal of scheduling certain subjects for taxation at the hands of the provincial governments, the Government of India observe, in the Reform Despatch already referred to: "We suggest that in that category there may be placed succession duties; taxation of the unearned increment on land; taxes on advertisements, amusements, and specified luxuries; and generally any supplement to revenues which are already provincial such as land cesses, higher court fees, increased charges for registration, and enhanced duties upon articles on which the excise is not regulated with reference to the tariff schedule." Para. 92.

‡ Report on Indian Constitutional Reforms, para. 210.

The borrowing powers were proposed to be given, under much more stringent conditions. It was, of course, impossible altogether to deny these powers, particularly when the reforms proposals imposed the burden of irrigation and famine charges upon the provincial Governments; but the Report required the powers of borrowing to be ordinarily exercised through the Government of India, and the distribution of the moneys thus raised must be made by the Government of India, or by a committee consisting of representatives of the Provincial as well as the Central Governments. It is only when this course was considered to be inadequate for the needs of a province, which nevertheless hoped to influence the money market by a direct appeal that a province was allowed access to the money market. Even then it must obtain the approval of the Government of India for the terms of the loan and the rate of interest, and observe certain prescribed rules.*

The final touch of financial autonomy of the provinces was provided by the suggestion that the balances of the provincial governments be no longer under the rigid control of the Government of India; and that the existing rules about minimum balances, deficit budgets, and the like, be abrogated. The Government of India had till then provided the fund from which the local governments made loans. These provincial loan accounts were to be removed to the sphere of provincial governments. The Government of India should be paid the balances due to them from the various provinces, or the debt be funded and interest paid thereon. The only control, if it can be so called, of the Government of India in the matter of balances after 1920, would be as regards the accumulation of famine assignments of the provinces, or the further drain upon their balances by the provinces. This last is only a control by way of previous intimation, so that the Government of India might know what to expect in the event of some grave all-India emergency like a war.

III.—The Meston Settlement

The standard, equitable contribution from the provinces, however, had yet to be determined; and it was for that purpose that a special committee, presided over by Lord Meston was appointed to advise on :—

"(*a*) the contributions to be paid by the various provinces to the Central Government for the financial year 1921-22;

* "The demand for entire liberty to borrow we cannot possibly accept. The narrow Indian market, strained as it will be by the coming demand for development in all directions, will have to be carefully nursed by us, and we cannot afford to be embarrassed by unrestricted competition from or among the provinces............So far as it is possible, we should endeavour to refrain from questioning the discretion of a province, and it will probably be helpful to lay down certain general rules. For example, priority would inevitably be given to a loan required for famine purposes, or to finance what is technically known as the provincial loan account. It might also with propriety be laid down that a province is not to borrow except for capital purposes, *i.e.*, for obtaining a permanent asset of a material character. In the case of unproductive debt the establishment of sinking funds should also be prescribed." First Reforms Despatch, para. 62.

The first considerable instance in which the powers of taxation and borrowing were simultaneously exercised by a provincial government, involving a direct appeal to the local money market, was that of the Bombay Government for purposes of the city development. The loan was for 9 crores, which was subscribed by that presidency exclusively. The tax was imposed on cotton bales imported and consumed within the city. The Bombay Government would have been better advised had they selected increased land and buildings values for taxation, along with certain articles of luxury, like motor cars, cinema films, etc.

(*b*) the modifications to be made in the provincial contributions thereafter with a view to their equitable distribution until there ceases to be an all-India deficit;

(*c*) the future financing of the provincial loan accounts; and

(*d*) whether the Government of Bombay should retain any share of the revenue derived from income-tax."

After making certain small readjustments, both on the revenue as well as on the expenditure side of the consolidated national accounts sheet,* the Committee proceeded to tackle the main problem before them. The total central deficit, after making the adjustments they had suggested, was calculated by them to amount to Rs. 9·8306 crores. The report on constitutional reforms had considered and rejected several alternative bases for fixing this provincial contribution to make good the central deficit, ultimately adopting and recommending the basis of realised surplus in each province, as indicating, in a measure, the excess of resources over the necessity of spending. Provincial authorities, however, complained,—and not without a show of reason,—that what the authors of the Reforms Report had assumed to be their realised surplus was in reality no better than a masked deficit. By disclosing the exact contribution to be made by each province after 1920-21, the arrangement would make each province feel most keenly the burden, which, perhaps, previously was never perceived as a burden. Moreover, if there were initial inequalities as between the provinces,—and there were such inequalities,—the basis of realised surplus cannot but stereotype these, and make it increasingly more difficult to justify them. Provinces urged the plea of their having been virtuous in war time, and practised strict economy, that gave birth to the surplus which the Reforms proposals had in effect suggested should be confiscated; and the Meston Committee felt themselves utterly unable to question arguments like these. Apart altogether from the fact that the basis of realised surplus made too much of what was really a mere accident of budgetting, and assuming that abnormalities could be all cleared away before fixing such a basis, and a normal surplus agreed upon, there would be no guarantee that what was agreed upon as a normal in any given year should continue to be the normal in all subsequent years.

> "The best argument," says the Meston Committee, "for the basis of the realised surplus was that, when originally recommended, it did recognise existing facts, that it appeared to leave all the provinces collectively with improved finances and each individual province with a surplus, and that it proceeded upon the principle of creating the minimum of financial disturbance in introducing the reforms scheme." (Paragraph 13 Ibid).

But without accepting these arguments, the Meston Committee considered that the advantages claimed by the authors of the Reforms Report for

* We have already referred to their suggestion about provincialising the revenue from general stamps; and may here refer to the recommendations about the Burma military police, which they suggested should be considered a central item to the extent of 2/3; and the Pensions and Leave charges paid in England should be distributed between the two governments according to the immediate service of the individual concerned. Cp. Paragraph 16 of the Meston Committee Report.

their scheme could be secured as effectively by another method. Even on the basis of the original proposals, the provinces, the Committee argued, gained considerably in spending power or revenue resources; and the gain would be further increased if their proposals about provincialising the revenue from commercial stamps were adopted. This increase in revenue resources or spending power, they estimated, aggregated Rs. 18·50 crores; and as they assumed that these additional resources of the provincial governments were obtained at the cost of the Imperial Government, they thought it but just and proper that the latter should obtain some relief towards their own deficit from those who had benefited by their liberality. The Committee summarised their findings and recommendations regarding their own alternative basis of contribution according to the increased spending power in the subjoined table †:—

(Figures are in Lakhs of Rupees)

Province.	Increased spending power under new distribution of revenues.	Contribution recommended by the Meston Committee.	Increased spending power left after contribution.
	Rs.	Rs.	Rs.
Madras	576	348	228
Bombay	93	56	37
Bengal	104	63	41
United Provinces	397	240	157
Punjab	289	175	114
Burma	246	64	182
Bihar and Orissa	51	Nil.	51
Central Provinces	52	22	30
Assam	42	15	27

The Committee considered their scheme had overwhelming specific advantages, inasmuch as the increased spending power was a mere by-product of the constitutional reforms, which had no reference to the intrinsic merits of the financial arrangements subsisting, nor had it been arrived at by any consideration of the financial needs of each province. In the general process of devolution,—a purely political and not a financial impetus,—the provinces obtain increased command of resources which the central authority finds itself compelled to resume, at least in part, and pending the complete rehabilitation of its own resources so as not to make even this much deduction. Besides, there is another side of the shield, which the Committee had no difficulty in pointing out: that even if the central government were not obliged to make this deduction for their own needs, the provincial governments will not be all ready all at once to absorb advantageously the whole of this increased spending power; the more a province had gained in spending power, the greater was the chance that all its increment could not be laid out profitably all of a sudden. Finally, though the Committee was frankly not considering the needs of the provinces, as measured by the avenues of profitable employment of funds which had till

† Paragraph 17 Meston Report.

then been kept blocked owing to the greater pressure of war-needs, in the actual parcelling out of the burden, it did not altogether overlook even this consideration. In the case of Burma, for example, recognising that the province had until then been relatively neglected by its government from the point of view of material development, and that schemes already undertaken were, for the moment at least, more imminent as sources of increased expenditure than as means of increased revenues, whatever the ultimate fate might be, they fixed the contribution of that province at only 6½% of the deficit. In the case of Bihar and Orissa, again the Committee realised that* "the local government is quite the poorest in India, and very special skill will be required in developing its resources. Heavy initial expenditure lies in front of what is still a new province; and there is a wholly abnormal want of elasticity about its revenues. We cannot advise that any share of the deficit should be taken from Bihar and Orrissa in 1921–22; and we expect that the province will be sufficiently burdened by having to work up to its standard ratio of contribution in the same period as the rest of India."

The contributions thus fixed for 1921–22 were obviously unequal *inter se*; for Madras, the United Provinces, and the Punjab contributed 35½%, 24½%, and 18%, respectively, or 78 per cent. among them of the total imperial deficit; while Bombay gave 6½% and Bengal 5½%. The special reasons for this were found by the committee in the facts that in Bombay the scale of expenditure was much higher than in any other province, and that therefore the relative increment in its spending power was insignificant; that its people contributed, through customs and income-tax indirectly, a much greater share of their wealth to the national exchequer than the peoples of other provinces, while, in the case of Bengal, the Committee had to recognise that though its scale of public expenditure was low, its revenues were inelastic, and it had obtained comparatively a poor addition to its spending powers under the new regime.

Having fixed the contribution for 1921–22, the Committee had next to determine the standard contribution from each province. This they did in terms of the percentage of the central deficit; and, after giving the best consideration they could to all the factors involved and with due regard to the material at their disposal, they laid down the following proportions as the standard, equitable contribution to be made by each province towards the central deficit, of an aggregate of 9·83 crores:—

Province.	Per cent. contribution to deficit.	Province.	Per cent. contribution to deficit.
Madras	17	Bihar and Orissa ...	10
Bombay	13	Central Provinces ..	5
Bengal	19	Assam	2½
United Provinces ...	18		
Punjab	9	Total ...	100
Burma	6½		

The Committee were, indeed, fully aware of the gravity and complexity of the task before them. The ideal basis for distributing this burden of the central deficit they rightly held, could be fixed if the

* Meston Report, para. 18.

total contribution of each province to the central exchequer was made proportionate to the capacity of each. But the factors determining the taxable capacity were all but incalculable, certainly on such information as the Government of India could supply. Still, allowing for everything, the Committee came to the figures given above ; and they further safeguarded their findings by observing :—

> "This, in our opinion, is the ratio which the provinces should in equity be called upon to contribute after an interval of time sufficient to enable them to adjust their budgets to the new conditions. We further recommend that the interval allowed for adjustment should not be unduly prolonged. The initial ratio which we have proposed is a practical necessity; but the provinces which will be called upon to pay thereunder more than they should pay in equity, ought not to be required to bear that burden for a longer period or to a greater extent than is required to prevent dislocation of the provincial budgets. We propose, therefore, that contributions should be made on the standard ratio to any deficit that there may be in the seventh year of contribution, and that the process of transition from the initial to the standard ratio should be continuous, beginning in the second year of contribution, and proceeding in six equal annual steps.".*

The initial, intermediate, and ultimate proportions are given in the following table †:—

Province.	Year. First.	Second.	Third.	Fourth.	Fifth.	Sixth.	Seventh.
Madras	35½	32½	29½	26½	23	20	17
Bombay	5½	7	8	9½	10½	12	13
Bengal	6½	8½	10½	12½	15	17	19
United Provinces ...	24½	23½	22½	21	20	19	18
Punjab	18	16½	15	13½	12	10½	9
Burma	6½	6½	6½	6½	6½	6½	6½
Bihar & Orissa	...	1½	3	5	7	8½	10
Central Provinces ...	2	2½	3	3½	4	4½	5
Assam	1½	1½	2	2	2	2	2½

This settlement, known in our financial history as the Meston Settlement, aroused a storm of protest the moment it was announced. Every province, whether plundered or preferred, thought it had good reason to feel aggrieved against this arrangement; and the Joint Committee of Parliament considering the Government of India Bill were obliged to recommend :—

> "That there should be granted to all provinces some share in the growth of revenue from taxation on incomes so far as that growth is attributable to an increase in the amount of the income assessed. That in no case should the initial contribution payable by any province be increased, but that the gradual reduction of the aggregate contribution should be the sole means of attaining the theoretical standards recommended by the Financial Relations Committee."

On this recommendation is based the Devolution Rule XV, which says :—

* Report, para 28, Financial Relations Committee.

† "It should be observed that if the Government of India fulfil their announced intention of gradually wiping out their deficit, against any increase in the proportion which a province will be called upon to contribute from year to year, there will be set off a reduction in the total to be contributed." *Ibid.* para 29.

"There shall be allocated to each local government a share in the income-tax collected under the Indian Income Tax Act, 1918, within its jurisdiction. The share so allocated shall be three pies on each rupee brought under assessment under the said Act, in respect of which the income-tax assessed has been collected. The number of pies to be specified shall be so calculated as to yield at the outset to the local governments collectively a sum amounting as nearly as may be to 400 lakhs."

Rule XVII then gives the contributions for 1921–22 as recommended by the Meston Committee, and Rule XVIII provides :—

"From the financial year 1922–23 onwards, a total contribution of 983 lakhs, or such smaller sum as may be determined by the Governor-General-in-Council, shall be paid to the Governor-General-in-Council by the local governments mentioned in the preceding rule. When for any year, the Governor-General-in-Council determines as the total amount of contribution a smaller sum than that payable for the preceding year, a reduction shall be made in the contributions of those local governments only whose last previous annual contribution exceeds the proportion specified below of the smaller sum so determined as the total contribution; and any reduction so made shall be proportionate to such excess.

Madras	17/90ths.	United Provinces ...	18/90ths.
Bombay	13/90ths.	Burma	$6\frac{1}{2}$/90ths.
Bengal	19/90ths.	Central Provinces ...	5/90ths.
Punjab	9/90ths.	Assam	$2\frac{1}{2}$/90ths.

These arrangements were also not universally satisfactory; and the Government of India have had to placate one province, Bengal, by a remission of its contribution for a period of 3 years in the first instance, and again for a like period; while in another case further concessions than those contemplated by the reforms proposals of the Meston Committee, or even the Joint Committee have had to be afforded. The provinces are, of course, even now far from satisfied; and they have more than semblance of reason for the case they have never ceased putting up before the central financial authorities. The conference of finance ministers, which has now become an annual feature, has, almost every time it was convened, considered this matter in one form or another; while hardly a budget debate in the country but has had its crop of regrets, or recriminations against this scheme. The root evil, of course, of the whole situation is the continued deficit in the central budget. In the years immediately following the introduction of the new regime, there was a growing deficit, which was very miserably sought to be concealed by undue optimism in estimating revenue at the time of budgetting. New taxation did not help to fill the breach, until after 1923; while such retrenchment as was then thought of did not suffice to undo the deficit. The patience, resourcefulness and deliberate policy of the present Finance Minister of India, particularly in regard to the artificial appreciation of the current coin of the realm, not to forget the windfalls that he has been luckily favoured with, have at last resulted, since 1923–24, in wiping off the deficit; and though the provincial contributions could not all be remitted or even reduced all at once, the option was possible for the first time in 1925. The antagonism

sought very skilfully to be created between the industrial and agricultural provinces of India, by holding out an option between the reduction of salt duty (increased previously) and the remission of a part of the provincial contributions was hardly graceful, not to say politic; but such as it was, it is but one beacon to light the way to an era which all may be hoping for but none dare build upon in the present state of the finance of India.

IV.—The Present Financial Position in the Provinces

The existing position may now be summed up with regard to the financial condition in the several provinces. The marginal table gives the total revenue and the aggregate expenditure charged to Budget in the several provinces according to the Budget estimates of 1925-26. The aggregate shows a small collective surplus, though individual provinces still continue to show a deficit. The figures, however, relate only to the provincial revenues, and do not include any part of the imperial taxes or other income collected within their jurisdiction. Efforts and experiments have been made in individual provinces, like Bombay or Bengal, to add to their local revenue resources by fresh or undeveloped taxation, such as a tax on advertisements or an increase in the court fees stamps. But the absence of the handsome contribution which has still to be paid by almost all the provinces cannot but make itself felt.†

Budget for 1925-26.

Name of the Province.*	Total Revenue.	Total Expenditure.
	Rs.	Rs.
Madras	16,51,79,100	16,22,20,800
Bombay	16,10,40,000	17,05,91,000
Bengal	10,54,74,000	10,77,01,000
United Provinces of Agra and Oudh	12,82,41,720	11,83,19,136
Punjab	10,77,34,000	10,81,56,000
Burma	10 40,09,000	10,37,22,000
Shan States Federation ...	......	......
Bihar and Orissa	5,43,88,000	5,68,51,000
Central Provinces	5,56,58,000	5,59,13,298
Assam	2,44,31,000	2,40,84,000
Coorg	15,55,000	14,50,000
Total ...	89,34,24,400	89,13,90,097

* These figures have been compiled from the Indian Year Book, 1926.

† Provincial contributions first began to be reduced in the budget of 1925-26, when Sir Basil observed :—The Government of India therefore propose that 74 lakhs out of the surplus of 3·24 crores should be kept in hand as a margin against possible disappointments or misadventures during 1925-26, and by way of security against any deterioration in the position of central finances in 1926-27; that the remainder of the surplus, namely 2½ crores, should be devoted to the reduction of provincial contributions and should be applied in accordance with the order of priority between the provinces definitely established under the devolution rules; and that in addition the contribution of 63 lakhs due from Bengal should be remitted for a further period of three years. The provinces entitled to a share in the 2½ crores in accordance with the devolution rules are :—

Madras	contribution	348	lakhs reduced by	126.
United Provinces	,,	240	,, ,, ,,	56.
Punjab	,,	175	,, ,, ,,	61.
Burma	,,	64	,, ,, ,,	7.

(Para 80 of the budget speech 1925-26)

In the next budget, 1926-27, a further reduction of 125 lakhs—also to the same provinces—was made making a total of 438 lakhs in all.

If we would include all the collections of revenue—central or provincial—in every province; if we would try and obtain some idea of the exact burden of Government borne by the citizen in each province, the official publications provide no help. The following tables from the present writer's *Wealth and Taxable Capacity of India* may, however, serve the turn.

Revenue raised in the various provinces of British India for Central as well as Provincial Government Account according to the Revised Estimates for 1923-24*

Name of province.	Revenues collected on account of		Total revenue collection.	Provincial expenditure.	Total wealth of the provinces.	Total population.	Incidence of taxation rupees per head.	Proportion of the wealth of different provinces taken by the central and provincial tax collections put together.
	Central Govt.	Provincial Govt.						
	Rs.	Rs.	Rs.	Rs.	In crores of Rs.	Rs.	Rs.	Per cent.
Baluchistan	23,96,000	......	......	......	......	......	......	......
N. W. F. Provinces ...	86,12,000	......	......	......	......	......	......	......
Madras	11,18,38,000	16,58,55,000	27,76,93,000	16,39,58,000	151·911	42,318,985	6·30	18·26
Bombay†	24,98,67,000	14,69,72,000	39,68,39,000	15,47,41,000	146·537	19,348,219	20·51	27·18
Bengal	27,96,74,000	10,15,01,000	38,11,75,000	9,86,78,000	189·635	46,695,536	8·16	20·16
United Provinces	3,44,24,000	12,97,61,000	16,41,85,000	13,02,92,620	215·638	45,375,787	3·61	7·60
Punjab	2,76,09,000	10 29,10,300	13,05,19,300	10,59,95,500	99·373	20,685,024	6·31	13·00
Burma	7,98,64,000	11,37,08,000	19,35,72,000	11,60 62,000	47·936	13,212,192	14·65	40·31
Bihar & Orissa	63,24,000	5,27,51 000	5,90 75,000	4,92,39,000	156·997	34,002,189	1·74	3·76
Central Provinces	96,47,000	5,26,07,000	6,22,54,000	5,24,07,000	80·851	13,912,760	4·47	7·70
Assam	43,93,000	2,20,54,000	2,64,47,000	2,15,58,000	44·915	7,606,230	3·47	6·14
India (General)	44,06,28,000	......	......	......	......	......	......	......
England	4,42,25,000	......	......	......	......	......	......	......
Exchange	2,01,03,000	......	......	......	......	......	......	......
Total Revenue ...	1,31,96,04,000	......	......	......	......	......	......	......

* These two tables are from the *Wealth and Taxable Capacity of India* by K. T. Shah and K. J. Khambatta, pages 283 and 288.

† The Bombay figures of revenue and expenditure do not include the development budget, which would add about 15 crores on either side, and so make the total tax-collections in Bombay amount to nearly Rs. 55 crores. The *per capita* charge in that case would be Rs. 55 and the proportion of the provincial wealth taken by taxation would be 38 per cent.

Provinces.	Collection on Railways a/c.	On a/c of posts.	True charges of customs.	Other revenues.	Total collection.	Wealth of provinces.	Proportion of 6 to 7.
	N.B.—The figures are in lakhs of rupees and relate to 1921–22.						Per cent.
Bengal	1,705·7	173·05	1,000·00	3,273·68	5,152·43	189·63	27
Bihar	910·2	38·17	450·00	590·57	1,988·94	156·99	12½
Assam	219·9	included in Bengal.	210·00	257·99	687·89	44·91	16
Burma	648·5	50·28	......	1,417·54	2,116·32	47·93	45
United Provinces...	1,410·7	95·46	850·00	1,635·65	3,991·81	215·63	18
Central Provinces	520·6	47·03	120·00	614·64	1,302·27	80·85	16
Punjab	1,015·4	144·53	620·00	1,301·19	3,081·12	99·37	30
Bombay	1,214·4	173·42	450·00	2,333·17	4,170·99	146·53	28
Madras	1,131·1	158·66	280·00	2,453·93	4,023·69	151·91	26

These tables attempt to give as near a picture as possible under the circumstancs of the exact burdens of the state borne by the citizen in the several British provinces. The details of that burden are shown in the next two tables which represent the revised estimates of 1924–25, and are compiled from an Indian Office publication, dated 26th May 1925, and giving the *consolidated figures of all the several* provinces as also *of the* Government of India.

Revised Estimate of the Revenue Department of the Government of India in India and in England for 1924-25.

Heads of Revenue.	Madras.	Bombay.	Bengal.	U. P. & Oudh.	Punjab.	Burma.	Shan.	Bihar and Orissa.	C. P.	Assam.	Coorg.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Taxes on Income	2,00,000	...	...	...	4,51,000	4,29,000	...	4,35,000	82,000	5,29,000	...
Land Revenue	7,39,34,000	5,24,00,000	3,10,00,000	6,80,03,800	22,88,14,000	5,48,88,000	3,35,000	1,66,55,000	2,23,26,000	1,02,50,000	3,71,000
Excise	4,97,83,500	4,35,90,000	2,14,00,000	1,35,06,000	1,06,33,000	1,14,43,000	9,000	1,71,00,000	1,46,00,000	64,00,000	3,47,000
Stamps	2,37,81,100	1,71,58,000	3,26,00,000	1,81,06,500	1,06,89 000	60,30,000	...	1,00,00,000	71,00,000	20,00,000	81,000
Forests	53,69,400	77,81,000	23,70,000	67,00,500	39,10,000	1,83,55,000	14,84,000	9,84,000	53,00,000	21,96,000	7,05,000
Registration	37,93,900	13,50,000	25,50,000	13,00,000	8,70,000	6,19,000	...	13,50,000	7,00,000	1,80,000	7,000
Scheduled taxes	...	9,00,000	22,00,000	...	...	...	...	...	...	...	...
Total Rs. ...	15,68,61,900	12,31,79,000	9,21,20,000	10,76,16,800	5,53,67,000	9,17,64,000	18,28,000	4,65,24,000	5,01,08,000	2,15,55,000	15,11,000
Railways											
Subsidised companies ...	...	...	94,000	2,40,000	...	56,000	...	...	...	5,000	...
Irrigation &c. Works.											
Works for which capital accounts are kept.	37,06,600	52,38,400	98,000	66,81,000	4,22,55,000	15,74,000	...	16,39,000	31,000	...	...
Works for which no capital accounts are kept.	1,18,000	46,000	2,09,000	20,000	4,10,000	19,40,000	...	1,59,000	1,27,000	...	...
Total Rs. ...	35,88,600	52,84,400	3,07,000	67,01,000	4,26,65,000	35,14,000	...	17,98,000	96,000	...	...
Interest Receipts											
Interest	13,66,400	1,31,37,000	3,64,000	16,39,000	5,04,000	11,40,000	...	5,58,000	3,31,000	64,000	...
Civil Administration											
Administration of Justice	15,07,500	15,75,000	14,50,000	13,00,000	10,00,000	9,83,000	34,000	4,70,000	5,60,000	1,73,000	4,000
Jails and Convict Settlements.	6,81,700	4,71,000	13,75,000	4,71,500	4,83,000	4,21,000	...	5,69,000	3,31,000	1,27,000	1,000
Police	9,11,400	4,75,000	5,71,000	3,07,100	1,74,000	3,93,000	7,000	2,17,000	1,87,000	2,69,000	1,000

Revised Estimate of the Revenue Department of the Government of India in India and in England for 1924-25—*concld.*

Heads of Revenue.	Madras.	Bombay.	Bengal.	U. P. & Oudh.	Punjab.	Burma.	Shan.	Bihar and Orissa.	C. P.	Assam.	Coorg.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Ports and Pilotage ...	100	...	28,000	...	...	1,18,000	...	...	...	...	...
Education	6,33,300	10,75,000	10,75,000	9,36,800	11,30,000	4,45,000	4,000	6,25,000	4,60,000	2,40,000	15,000
Medical	3,65,600	6,15 000	10,00,000	84,800	2,81,500	1,59,000	1,000	5,02,000	48,000	59,000	10,000
Public Health	31,100	4,00,000	36,000	97,000	1,02,000	37,000	...	1,32,000	62,000	58,000	...
Agriculture	12,06,200	3,24,000	3,91 000	4,33,800	5,95,000	60,000	1,000	1,67,000	3,17,000	11,000	...
Industries	13,91,900	31,000	7,05,000	66,000	28.000	3,000	...	18,000	26,000	6,000	...
Miscellaneous Depart. ...	3,74,700	2,47,000	46,000	1,61,800	1,63,000	1,56,000	...	65,000	65,000	1,000	...
Total Rs. ...	61,63,500	52,13,000	66,77,000	38,58,800	39,56,500	27,75,000	47,000	27,65,000	20,56,000	9,44,000	31,000
Civil Works											
Civil works	6,87,000	14,96,000	8,53,000	5,50,000	3,77,000	12,02,000	80.000	6,05,000	4,50,000	5,86,000	12,000
Miscellaneous							23,70,000				
Receipts in aid of superannuation.	5,58,300	15,50,000	3,85,000	11,49,500	6,11,000	...	...	3,42,000	...	...	1,000
Stationery and Printing...	2,39,900	2,75,000	2,22.000	3,25,500	6,11,000	1,57,000	...	...	5,23,000	75,000	...
Miscellaneous	6,63,500	7,70,000	14,60,000	8,63,000	97,000	1,00,000	...	1,00,000	41,000	10,000	...
Transfers from Famine insurance funds.	...	...	...	27,29,000	17,00,000	3,48,000	...	3,65,000	5,84,000	4,46,000	...
Total Rs. ...	14,61,700	25,95,000	20,67,000	50,67,000	24,08,000	6,05,000	...	8,07,000	11,48,000	5,31,000	...
Extraordinary Rects.	...	...	...	...	54,41,000	...	...	21,000	...	...	...
Miscellaneous adjustments between the Central & Provincial Governments	1,55,200	7,22,000	2,32,000	1,91,000	3,00,000	3,18,000	...	70,000	12,000	20,000	...
Total Revenue Rs. ...	16,31,07,100	15,16,26,400	10,27,14,000	12,58,63,600	11,10,18,500	10,12,62,000	43,25,000	5,31,48,000	5,42,01,000	2,37,05,000	13,55,000

Total Expenditure charged to revenue in the several provinces, according to the Revised Estimates of 1924–5.

Heads of Expenditure.	Madras.	Bombay.	Bengal.	U. P. and Oudh.	Punjab.	Burma.	Shan.	Bihar and Orissa.	Central Provinces.	Assam.	Coorg.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs,	Rs.	Rs.	Rs.	Rs.
Land Revenue	40,77,100	64 34,340	31,96,000	·81,17,800	44.32,000	58,62,500	25,000	21,28,000	24,30,000	16.63,650	80,000
Excise	26,94,300	41,43,500	13,13,000	6,58,320	5,17,600	18,18,000	2,000	10,12,000	7,67,000	1,84,000	6,000
Stamps	10,00,800	6,12,000	9,26,000	4,20.900	2,61,000	1,59,000	...	3,32,000	2,28,000	87,000	2,000
Forests	48,49,500	47,82,000	14,25,000	39,27,900	28,12.000	1,02,68,400	4,77,000	8,59,000	32,65,983	14,55,540	4,27,000
Registration	23,89,100	20,000	18,41,000	4,46,000	1,00,000	1,55,000	...	5,62,000	2,35,000	1,33,000	1,000
Scheduled Taxes	...	...	15,000	...	...	...	...	...	...	...	...
Total Rs. ...	1,50,10,800	1,66,97,840	87,16,000	1,35,70,920	81,26,600	1,82,62,900	5,04,000	49,53,000	69,25,983	5,2 3,190	5,16,000
Irrigation and Revenue account.											
Interest on debt	...	58,22,000	18,03,000	60,70,500	90,70,000	13,37,000	...	20,40,000	21,63,000	...	...
Other Revenue Expenditure financed from ordinary revenue.	55,59,000	31,35,000	13,89,000	3,34,000	20,21,460	37,82,000	...	4,87,000	2,49,000	...	6,000
Construction of Irrigation Works.	...	...	7,12,000	3,39,000	2,52,000	9,51,000	...	13,000	2,38,000	...	...
Famine Insurance fund ...	...	...	...	9,000	...	...	...	16,000	...	70,000	...
Total Rs. ...	55,59,000	89,57,000	39,04,000	64,13,500	1,13,43,460	60,70,000	...	25,56,000	26,50,000	70,000	6,000
Debt Services.											
Interest on ordinary debt ...	47,09,000	1,31,48,000	7,47,000	24,97,900	19,000	13,66,000	...	3,54,000	18,000	60,000	...
Reduction or avoidance of debt.	...	...	...	3,00,000	1,26,000	...	...	...	2,23,000	...	...
Sinking fund and other appropriations.	...	17,86,000	...	1,60,000	...	...	...	...	...	...	...
Total Rs. ...	47,09,000	1,49,34,000	7,47,000	29,57,900	1,45,000	13,66,000	...	3,54,000	2,41,000	60,000	...
Civil Administration.											
General administration ...	2,25,28,300	2,28,55,700	1,18,55,000	1,34,79.100	1,05,61,500	96,39,000	5,41,000	70,95,000	67,84,156	26,41,160	1,56,000
Administration of justice ...	95,58,600	74,32,000	1,10,35,000	69,39,900	55,46,000	60,16,400	4,000	37,35,000	31,24,914	9,20,000	49,000
Jails and convicts settlement...	30,37,400	26,50,500	33,34,000	31,37,841	31,89,000	27,68,900	22,000	16,59,000	9,72,836	4,34,000	12,000
Police	1,94,00,200	1,81,79,500	1,84,84,000	1,60,42,300	1,15,03,000	1,36,09,400	1,96,000	81,96,000	58,11,297	23,02,800	88,000
Ports and pilotage	50,600	21,010	8,45,000	...	...	26,07,000	...	63,000	...	63,000	...
Scientific Department ...	1,42,300	67,000	27,000	20,400	4,73,000	55,000	...	...	...	...	...

Total Expenditure charged to revenue in the several provinces, according to the Revised Estimates of 1924-25—*concld.*

Heads of Expenditure.	Madras.	Bombay.	Bengal.	U. P. and Oudh.	Punjab.	Burma.	Shan.	Bihar and Orissa.	Central Provinces.	Assam.	Coorg.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Education	1,72,12,400	1,89,67,420	1,24,41,000	1,70,60,680	1,13,74,000	78,67,700	3,09,000	33,000	13,000	11,000	...
Medical...	59,41,100	49,53,500	57,52,000	26,09,100	30,73,000	38,92,100	2,21,000	68,03,000	49,71,703	23,68,250	1,42,000
Public Health	12,33,300	25,72,600	29,25,000	13,92,800	15,06,000	9,40,300	28,000	27,06,000	12,87,477	9,68,420	76,000
Agriculture	27,09,000	27,31,010	18,79,000	23,94,500	30,83,000	20,33,600	18,000	10,47,000	2,96,332	5,98,400	3,000
Industries	20,69,200	19,000	10,19,000	9,78,900	6,47,000	3,76,200	5,000	11,14,000	14,84,857	4,48,170	18,000
Miscellaneous Departments ...	15,85,100	5,42,000	5,87,000	2,00,630	3,02,000	3,34,400	...	7,13,000	2,50,229	1,00,000	...
								75,000	1,16,000	18,000	...
Total ...	8,54,67,500	8,09,91,240	7,01,83,000	6,42,56,151	5,08,31,800	5,01,40,900	13,44,000	3,31,77,000	2,51,12,771	1,08,72,400	5,44,000
Civil Works	93,45,500	1,06,49,000	98,33,000	84,71,470	76,27,600	2,21,16,000	22,11,000	69,52,000	64,13,343	39,79,700	2,83,000
Miscellaneous.											
Famine Relief & Insurance ...	6,61,000	53,60,000	2,00,000	5,60,000	3 81,000	67,000	...	11,37,000	37,90,000	10,000	...
Superannuation allowances & pensions.	57,93,100	62,73,000	56,26,000	57,67,700	32,06,000	38,22,000	...	19,95,000	25,03,029	11,32,450	46,000
Stationery and printing ...	21,97,700	14,94,000	16,63,000	9,70,910	9,47,600	10,24,000	6,000	11,67,000	5,36,000	3,60,610	20,000
Miscellaneous	15,02,400	33,73,000	5,51,000	14,42,300	15,05,000	25,31,900	2,77,000	1,50,000	11,98,480	7,29,450	23,000
										200	
Total Rs. ...	1,01,54,200	1,65,00,000	80,40,000	87,40,910	60,39,600	74,44,900	2,83,000	44,49,000	80,27,509	22,32,710	89,000
Contribution to the Central Govt. by Prov. Govt.	3,48,00,000	56,00,000	...	2,40,00,000	1,75,00,000	64,00,000	...	...	22,00,000	15,00,000	12,000
Miscellaneous ajdustments between Central and Provincial Governments.	46,600	51,000	19,000	57,300	81,500	1,84,000	...	5,000	57,000	...	...
Railways	...	...	...	10,000	...	...	...	...	...	...	...
Interest on debt	...	...	...	5,000	...	29,000	...	...	...	25,000	...
Subsidised Companies ...	...	...	...	2,000	...	...	...	...	...	1,000	...
Misc. Railway expenditure ...	...	...	...	...	...	...	...	...	...	...	...
Total Rs. ...	...	...	...	17,000	...	29,000	...	...	...	48,000	74,000
Railway Account charged to Revenue.	...	...	...	...	...	...	...	...	...	60,000	...
Total Expenditure Rs. ...	16,51,42,600	15,43,80,080	9,99,48,000	12,88,25,151	10,16,95,560	74,44,900	43,42,000	5,24,46,000	28,07,000	2,22,52,000	14,50,000

V.—Critique of the Indian system of Federal Finance

We have now completed a sketch in outline of the evolution and present system of federal finance, as it is conceived and practised in this country. It remains now to consider such points of obvious or imperceptible criticism which have been urged against the system from one point of view or another. At the outset of such a discussion, however, it would not be out of place altogether to mention some of the difficulties in the way of a proper planning and smooth working of federal finance in this country, which are only too often ignored at the cost of unspeakable confusion and misunderstanding of the whole problem. On the one hand, we have not to write on an absolutely clean slate, where the constructive financier would be at perfect liberty to design what system he pleases, in accordance with whatever ideals of collective life he may have adopted. On the other hand, we have not the dictating might of those hoary old traditions, which have so become embedded in the life and consciousness of certain peoples,—like the Germans, for example,—that to them the task of demarcating between the central sources of revenue and those reserved for the constituent states offers no difficulty worth mentioning; for the same have been marked out and accepted beyond question or criticism by the sheer weight of centuries old tradition. In India, the provinces have come into being, historically speaking, and been considered as independent political entities, only very recently. The supreme, central government was in existence long before the provinces began to function as independent governments. Even when they did begin to so function, they acted simply as agents or representatives of the central government, with neither an independent will nor an independent policy of their own. The fact, however, that the central government had delegated certain functions to the provinces, and assigned certain revenues for the discharge of those functions so that, in course of time, this delegation was gradually, constantly, progressively widened, has created a tradition, an implication of policy, that the ancient overwhelming position of the central government will never be restored; that any changes in the future must be in the direction of further strengthening of the provincial position; that the association of the peoples of the soil, the beginnings of real self-government and effective ministerial responsibility, must be made in the more limited theatre of provincial government. This last has, since the declaration of August 1917, been definitely engrafted upon the political consciousness of the Indian people; and the goal of a federation of the provinces and states of India is now so definitely adopted by every shade of public opinion in this country that the question of a proper lay-out of the financial resources and obligations between the several self-governing units of the federation will be a mere feature, an incident, of the entire problem of introducing self-governing institutions in India.

The problem has thus insensibly, but materially, changed in the fifty odd years since Lord Mayo put forward his first instalment of decentralised finance. We have to-day to consider not a purely financial problem,

considered on the strictly exchequer grounds of balancing the budget in both the central as well as the provincial governments; but the very much larger question of reconciling the new ideal of self-government and popular responsibility of local ministries with the old and by no means effete notion of administrative efficiency and of material development simultaneously in all provinces, so that there might justly be said to be a common standard of economic welfare all over the Indian Empire. This last is a consideration whose far-reaching ramifications and complications have yet to be realised fully by the Indian authorities as well as by their critics. If public finance, if governmental expenditure and the power of taxation, are ever to be used as an effective weapon to promote the material well-being of the governed, we cannot be content merely with establishing a budgetary equilibrium in the provinces. The provinces of British India are the creations of mere administrative convenience. Hardly any of them shows those forces of local integrity or solidarity, which the states in other federations, that have been in existence even before the federation came into being, display. Lacking in any such principle of internal cohesiveness and integrity, the provinces have been entrusted with obligations and resources that have no intelligible correlation with the intrinsic requirements of the provincial life and ambitions. Moreover, since not all provinces are equally developed, or even capable of identical lines of simultaneous progress and development, their possibilities of new revenue resources are also unknown and unrealised. And yet the insistent, irresistible demand for local autonomy as the only means for an effective self-expression of each such people federated in the vast entity known as the Indian Empire, will not permit that the watchful might of a common central government, supreme as it will be solicitous, should be retained to minister to the developmental needs of each province. The political and the financial problems thus interact and mould each other into an almost insoluble complexity. While every trace or vestige of supreme control, or even connection merely in the form of contributions for specified ends, is apt to be resented as unwarrantable interference, the abandonment of each province to its own devices is more than likely to precipitate several provinces into local inefficiency, if not absolute insolvency. On the other hand, any system in which the provinces would have to contribute towards the support of the central services, however limited that support may be, is bound to appear in the light of sheer wastage in the provinces; and it would be the height of political imprudence, if not improvidence, to leave the central authority merely as a provincial pensioner.

It was this tangled skein which the authors of the Constitutional Reforms had addressed themselves in the first instance to unravel; and failing them, a specially appointed committee was told off to discharge the duty. But neither could provide a universally satisfactory solution. The basis of realised surplus, or even of increased spending power, adopted by each of these bodies respectively, was alike objectionable, inasmuch as in neither had due consideration of the taxable capacity of each province been given

anything like its proper importance; while the demands of future development were utterly ignored. These demands, however, cannot be always ignored. The conflicting aims of tax-reduction and social reform must also be reconciled in India as a whole as well as in the several provinces individually. The *obiter dicta* of the Indian Taxation Enquiry Committee to the effect that there is no ideal system of division of sources of taxation between imperial and state governments does not carry us any further. It merely emphasises an old difficulty when it refers to almost the impossibility of so dividing the revenues as to give to each Government resources which will suffice for its needs, and yet effect a fair distribution between all the participants concerned.* Hence, while accepting such obvious generalisations as that where an ideal scheme of absolute division is not possible, a system of dividing the tax proceeds would be preferable to that of subsidies, we cannot give any further consideration to the findings and recommendations of this Committee, for the simple reason that they do not carry us any further at all in the solution of the main problem. In fact, their reasoning in many specific cases of taxation and its distribution reads extremely retrograde, at least from the point of view of evolving a scheme that would guarantee a sufficiency of resources for efficiency of administration to the provincial as well as the Imperial Government. For to hold that the revenue from commercial stamps is more properly a central source is to ignore entirely the needs of the provinces; and as for considering the income-tax, the restrictive excise duties, export duties and probate duties to be in the nature of balancing factors, is to ignore altogether the real nature and probable effects, social as well as financial, of these several sources of public revenues in India.† The Committee, however, render the task of their critic very much easier by refusing to make out a complete scheme of division, since a radical revision of the Meston Settlement they do not consider to be within the scope of their reference; and, automatically, therefore, the reconsideration of the Devolution Rule XV has to be referred to that body which has to reconsider basically the existing scheme of revenue and expenditure distribution.

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* "It is hardly necessary to point out that there is no system generally accepted as the theoretically best system of taxation, and as Sir Josiah Stamp says, there is no country in which the whole system of taxation is logically worked out from first principles. Similarly, there is no Federal Government in which the distribution of the taxes between the Federation and the States that compose it is based upon considerations of pure theory." Para 505, op. cit. p. 365.

"A system of separation of sources is decidedly the best, if a scheme can be discovered under which the allotment of certain sources to the Imperial, and certain others to the States Governments gives each a revenue adequate to its needs, and at the same time effects a fair division between the States." *Ibid.* Para 511.

† "To sum up: it will be seen that, of the taxes so far examined, import duties and revenue excises are necessarily imperial, land revenue and irrigation and fees, which include judicial stamps, are necessarily provincial; that, in the Committee's opinion, non-judicial stamps and the excise on country-made "foreign" liquor ought to be transferred from Provincial to Imperial, and that the whole of the revenue from opium might well be transferred similarly; and that other possible balancing factors are afforded by the export duties, the other restrictive excises, and the probate duty, but that the Committee do not regard the use of these as desirable if it can be avoided." *Ibid.* para. 527.

VI.—A Solution

The problem has thus resisted so far the attempts made to solve it. Unless we approach it from a direction wholly new, it is probable no satisfactory solution will ever be attained. It is useless, and now impossible, to view it as merely a matter of balancing, or striking simple arithmetical equilibria. We must consider the question as an integral, indispensable factor in the entire scheme of Indian polity moving towards the goal of perfect provincial autonomy, without dismembering or uprooting the central hegemony and imperial unity or national solidarity. A complete separation of finances, both on the revenue and on the expenditure side, without a link or a hyphen, must be postulated as the *sine qua non* of any possible and satisfactory solution. On this basis the desire of the Imperial Indian Government to prescribe and enforce some common standards of administrative efficiency and material development in all the several provinces will have to be abandoned, not because it is questionable, but simply and solely because it is outside the scope of the duties and ability of the central government. The national obligation of defence, and, to some extent, of the maintenance of national credit, at least in so far as the debt hitherto incurred is concerned, are obviously and unavoidably the central functions, which must demand corresponding resources to be discharged. The study of the details of the central as well as the local finance, unfolded in these pages, does not lead us to the conclusion that the present figures of expenditure on those heads are the absolute irreducible minimum that we must go on spending on pain of forfeiting our very right to national existence. There is ample room for economy in these directions still; and until that is tried and given effect to, the central government advocate insisting on the present figures as the standard and the minimum of its needs would inevitably be exposed to the just suspicions of provincial ministries. The resources primarily to be pledged for the discharge of the central functions above-named are already within the powers of that government, *viz.* the profits of the means of transport and communication. Public ownership and enterprise in these directions is capable of infinite expansion; and the surplus therefrom, instead of being used up in blind extension of these means of transport without any thought of their need or utility, might well meet a fair proportion of the needs of the state as thus defined. There would, indeed, be still left an uncovered balance, even if the railways and the post office are made to yield the utmost farthing of profit they are easily, naturally, capable of yielding. Assuming the total central needs of the defence and debt services, and other unavoidably common central departments, to demand a total of 100 crores net per annum, the railways and the post office even when expanded and developed as herein suggested can barely supply a fourth from their net surplus. Profits of the paper currency reserve, which may well be invested, as to the fiduciary portion, in Indian Government securities to the largest proportion if not entirely, may account for another 5 crores; while banking development in the hands of the state, and as state-owned enterprise, might

be easily made to contribute double that amount to the central revenues.* Centralised banking, even with suitable branches, might conceivably be objected to by the provinces, and even by the more considerable municipalities; but while the national credit maintenance continues to be a central obligation; while currency remains a central function, there will be no insuperable difficulty in inducing such critics to co-operate in evolving a *modus vivendi*, which will be equally serviceable to them as profitable to the central government. The balance can, we think, be made up from the customs revenue alone. All the other items will then fall upon the provinces, who will also have the rest of the sources of revenue. Inequalities in the burden of taxation as between the several provinces ought, in that case, to be no more than an index of the varying standards of provincial wealth and development in the different places, which need occasion no embarrassment or anxiety to the imperial government. Only, such questions of vast social reform, as, for example, the total prohibition of intoxicating drinks or drugs; or the redistribution of burdens between the payers of the direct taxes and those of indirect taxes, will have to be tackled by common consent and agreement on a uniform line of attack; but the results will have a significance rather social than financial. The provinces, in a scheme of division on this principle, will have a net expenditure among them of some 125 to 150 crores, of which the land revenue and irrigation charges, rearranged and redistributed on more equitable basis, would account for 45 crores, while the income tax will bring in another 30 crores at least. Stamps of all kinds and the fees proportioned to the services rendered would account for another 20 crores, while forests and other provincial industrial enterprise will help to complete the century. The balance must be left to be made up by penal excises, like that on intoxicants, or restrictive duties such as those on tobacco; departmental receipts, and minor sources of taxation such as advertisement tax, amusements tax, and, if necessary, succession duties on real and personal property, which must be regarded in future as the mainstay of the major projects of social reform.

In this arrangement, such objectionable taxes, as that on salt or even the foreign-borne profits of our opium monopoly, are not included, the implication being that they are abandoned, or retained only as extraordinary sources to be used in an emergency. They will both then be central sources of revenue, and may be maintained even at the start as at present, or with some reduction, until the profits from state enterprise come up to the standard above assumed. On the expenditure side, the scheme assumes full effect being given to retrenchment in salaries and establishments wherever possible, by every device, including the substitution of Indian

* This ideal does not seem to find favour with our present government, since their latest attempt towards the institution of a new type of bank in India resorts to the private capitalist to subscribe the share capital. The Reserve Bank now proposed,—even more than the Imperial Bank of India,—ought to be an entirely state concern; for the functions entrusted to it are vital to the very existence of the country.

for non-Indian agency, in all the departments of the state in India ; while extension of work in such directions as public instruction at all stages and in all branches to the highest level, or sanitation reform, or economic development would absorb more than all the economies resulting from the above. We have accordingly provided for provincial budgets expanded by 50 per cent. to 67 per cent. on the present level. There is no other scheme which will, I think, give as great a satisfaction as the above.

PART VII

Financial Organisation : Machinery of Control and Audit of Accounts

Until 1920, financial organisation and control, in the sense that it has developed in England, was conspicuously absent in this country. Our Government had till then remained, in form as well as in feeling, an alien autocracy, which could not be made responsible to the wishes of the people without endangering the supremacy of the foreign element. The expenditure of Indian revenues, therefore, did not obey the wishes of those who paid for the public service, because there was no organisation to form, express, and enforce the real Indian opinion on the subject. At the time that the government of the country was brought under the British Crown, it was felt that the disappearance of the Company's buffer—powerless as it had been in the past effectively to prevent a misapplication of the Indian revenues—would leave the Indian tax-payer entirely at the mercy of the absolute government established in the country; and so at that time precautions were adopted in the deed of transfer against any abuse of authority, in matters financial, to the prejudice of the Indian people. In practice, however, these precautions, as is shown below, proved inadequate to prevent the evils they were designed to avoid; with the result that, after sixty years of direct British rule, India still remained without any effective machinery for the control of its financial administration in the interests of her people.

I.—The Control of the British Parliament

Of the measures adopted for safeguarding Indian interests, none was considered to be so strong as the supreme control of the British Parliament. In particular, it had been specifically provided that the revenues of India should not be employed, without the consent of Parliament, for aggressive purposes beyond the frontiers of India.* But, during sixty years of its supreme power, Parliament was never able to check the militarist and wasteful tendencies of the Indian Government. If we would judge the mother of Parliaments charitably, we would say that on each occasion the outbreak of

* Section 55 of the Government of India Act, 1858, provided that " Except for preventing or repelling actual invasion of Her Majesty's Indian possessions, or under other sudden and urgent necessity, the revenues of India shall not, without the consent of both Houses of Parliament, be applicable to defray the expenses of any military operation carried on beyond the external frontiers of such possessions by Her Majesty's forces charged upon such revenues." This section was practically reproduced in s. 22 of the Government of India Act, 1915.

military operations was so manœuvred, that Parliament was either led to believe that the use of Indian forces and revenues outside the frontiers of India was necessary to prevent a threatened invasion of India; or, more cleverly still, that it was too late to interfere, and, therefore, the best course was to grant the required consent.* On the other hand, if we are inclined to be critical or censorious, we would say the British Parliament never had sufficient leisure or intelligence to judge clearly of such distant issues as were involved in the Indian frontier policy; or, harder still, that the collective representatives of a nation of shop-keepers could never find it in their hearts to refuse a proffered help, or to allow themselves to be entangled in the struggles in which an alien dependency was to ruin itself. Besides, the saving clause in the Act was specially confined only to expenditure on military adventures. It had nothing to do with civil expenditure, which could be, and was manipulated freely by the Indian Government without the Parliament ever knowing anything about it. For one thing, it had no opportunities of discussing Indian questions.† And even if a small clique of members could find time to raise a debate on Indian financial questions, the official representative of the Indian bureaucracy in Parliament could either silence the mal-contents by a show of superior wisdom and interior knowledge, or, as more frequently happened, by setting representatives of English interests against these hardy champions of India.‡

But even if these things had been otherwise, if Parliament had reserved more opportunities of discussion, had more members competent to discuss, more time to spare, it is not at all certain that Indian finance would have been effectively controlled in Indian interests.§ The utmost that the British Parliament can do with advantage to India and credit to itself, is to see that in India, Indian interests and Indian representatives get fair play in purely Indian questions; and that outside India, that country's interests are not sacrificed to the wider issues of the Empire or world politics.

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* This is not the fate of India alone. The executive can force the hands of Parliament even in England since foreign affairs are practically beyond the purview of Parliament. The logic of accomplished facts is often irresistible, however erroneous it may be.

† Until the Montague-Chelmsford reforms, the expenditure of the India Office was defrayed out of the Indian revenues, and so Parliament could not raise discussion on Indian questions at any moment when the House would be full, and attention close. Since 1920, that great evil may be said to be over. A portion of the India Office charges, including the salaries of the Secretary and Under Secretary of State for India, is now charged on the British estimates, and is liable to be discussed as any other departmental estimates in the British Parliament. The bulk of the India Office charges and the expenditure of the Government of India in England still fall on India, and are practically immune from any scrutiny or criticism by the people's representatives in India or in England.

‡ Particularly in connection with the outlay on railways as against that on irrigation works.

§ Indian opinion before the Welby Commission desired to obtain direct Parliamentary representation for India. The present day opinion seems to have understood the futility of such a concession, even if it was accorded, with reference to the special object in view. A much more effective solution would be found in the control of the public purse by the people's own representatives in this country itself.

II.—The Secretary of State for India in Council

The responsible head of the Indian administration in England is the Secretary of State for India—a British cabinet minister. Theoretically, like the entire British cabinet, he is responsible to Parliament, and may be supposed to control the public finance of India under the salutary dread of parliamentary criticism. In reality he has no such dread. Until very recently, his salary and the expenses of his department were not borne by the English exchequer, and could not, therefore, be criticised by Parliament. His Council,—originally intended to be a conclave of men experienced in Indian affairs, forming an independent, advisory body, has since 1869-74 come to depend more and more on the Secretary of State. They have no independent information, no means to bring to book a too absolutist Secretary of State. They are divided among themselves by the system of committees, and are working under the terror of the Secret Committee. The Secretary is a member of the British cabinet, a leader of the House of Commons, a favourite, possibly of the British people. If he differed from the Council, he spoke with all the weight and authority of a cabinet minister, all the aplomb of the man who knew he had the ear of the public while his opponents had not. He could not defend them before Parliament, and could have his policy vindicated by the ready sufferages of his party's majority. Under the circumstances, the minister tended to be the absolute master—the only controlling power in the administration of India.

III.—The Government of India

But the Secretary of State for India suffered from two great disadvantages. He had no personal knowledge of local Indian conditions, no contact with Indian opinion, no intimate interest in Indian questions. His office was only a step in his career, that did not depend necessarily upon the credit he gained in that office. He was, moreover, at a distance from the country of whose destinies he was such an absolute master. The government on the spot had all the advantages which the Secretary of State lacked. They could confront him with the same inexorable logic of accomplished facts, which frequently served to involve the Parliament in a course of policy adopted without its previous concurrence. The political wisdom of not detracting from the authority of the local powers made the responsible minister often unwilling to interfere in Indian matters, even when his own judgment would not support a particular course. The *de facto* authority to control Indian finance was, therefore, the Government of India. Complaints as regards the control of Indian financial administration were not that the Government *could* not control, but that it *would* not and *did* not. As the head and embodiment of the bureaucracy, it must support the bureaucracy. The legislative councils had no power to vote or veto the budget, though, since 1909, they were given the right to discuss some of its items and

offer a few recommendations.* The minister in charge of Indian finance was a member of the Indian Government, and necessarily suffered from all the disadvantages incidental to the constitution of that government. He had neither the power nor the sanctions that his prototype—the Chancellor of the Exchequer—can command in England.† The spending departments were not only independent of him; they had as much access to the head of the government as he had, and could make him adopt their point of view more easily than the finance minister could.‡ He could not contend always with success, single-handed, and without the support of the public opinion constitutionally expressed in the council behind him, against the combined pressure of the spending departments. He had, under the Indian system, no means of knowing in advance, much less of restricting, any proposed increase in the expenditure of a great department. He could sometimes, carry his point by the support of the Secretary of State; but there was no means of direct communication between them, no regular system of appeal on disputed points.§ The only items of expenditure he could economise in used to be the provincial expenditure, which, however, meant a loss of the barest means of necessary improvement to the country.

All these authorities were, therefore, unable, for a variety of reasons, to exercise effective control over Indian revenues and expenditure. The only means to achieve such a control lay in the grant to the Legislative bodies in India of a complete power of the purse, as regards the revenues and expenditure subject to their jurisdiction.

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* The right to move the resolutions in the council on financial topics was shorn of all its possibilities by the provision of a standing official majority in the supreme council. No resolution could pass the council which the government did not like. And even if it passed, it was not incumbent upon the government to give effect to the resolution. The only value of the right lay in the opportunity it afforded to express disapproval of a particular course adopted by the government, an expression of a pious wish on the part of the non-official public, and the moral pressure which an expression of opinion might create. Since the Reforms of 1920, a part,—a very limited part, of the total Budget of the Government of India is made voteable by the Indian Legislative Assembly. But the withdrawal of a large amount of expenditure from general discussion,—except in virtue of a frail convention and precedent,—is distinctly retrograde, not to mention the power of certification reserved to the Governor-General for the passage of the Budget over the heads of a refractory Assembly.

† "In India the revenue authorities are not concentrated in Calcutta as they are in London, and they are not subject to the financial member as the English revenue authorities are subject to the Chancellor of the Exchequer. The financial member, therefore, cannot command expert assistance at the head-quarters in the same degree as the Chancellor of the Exchequer." *Welby Commission Report*, para. 55.

‡ Said Sir A. Colvin in his evidence before the Welby Commission, "Since the events of 1885 and the establishment of the Russian power in Central Asia, the balance of influence between the financial member and other members of the council, more especially, I should say, the military members, has been radically disturbed by the very great preponderance being given to military considerations." By the decentralisation of finance, the Viceroy's influence was removed from internal questions to those of foreign affairs and the army; and, more often than not, he too was inclined to side with the latter if and when the Finance Member differed from them.

§ A suggestion was once made by Sir A. Colvin to provide such a system, but it would be injurious to the true interests of India by removing the controlling authority to London.

IV.—The Montagu Chelmsford Reforms and the Indian Budget

The Constitutional Reforms of 1920 made no material change in this respect. Parliament still remains the sovereign authority for controlling financial as well as other aspects of the general policy for the Government of India; but there is no reason to believe that the institution of a Standing Committee or decennial commission* will enable Parliament to take any more real interest in Indian affairs than it has done in the past.† The occasion will no doubt be provided for discussion of Indian affairs by transferring the salary of the Secretary of State to the British Estimates; but unless we can be sure that the members of Parliament would have more time to devote to such abstract questions, or more intimate knowledge, we must continue to be sceptic as to the ability of the British Parliament effectively to control the expenditure of the revenues of India. Besides, there is always present, inevitably, the possibility of suspicion in the Indian mind whether the control exercised by Parliament, even if effective, would really be in Indian interests exclusively. **The real Government of India must be in India, and the control must also emanate from India.** While India is a member of the British Empire, the utter abolition of Parliamentary control is, of course, out of the question. But the admission of the necessity of Parlimentary sovereignty does not bind us to accept the will and power of Parliament effectively to control Indian finance in Indian interests. There is, in fact, a grave danger, should Parliament take, not a national, but a partisan view of Indian financial or fiscal questions. There was, therefore, a fundamental defect in the Reform scheme of 1920 from the standpoint of financial control. It made the Government of India responsible to Parliament, not to the people of India, for the peace, order and good government. It made over a fair proportion of the local revenues and expenditure to the control and direction of ministers supposed to be responsible to the local legislature, but spoiled the whole arrangement by the suspected and suspicious device of keeping certain heads of expenditure, certain departments of Government, reserved in the hands of non-responsible members of the provincial executive. It permitted a certain measure of popular control over a small proportion of the central Government budget in the Indian Legislative Assembly; but at

* "We recommend, therefore, that the House of Commons be asked to appoint a select committee on Indian affairs at the beginning of each session. Such a select committee would exercise its powers by informing itself from time to time upon Indian questions, and by reporting to the House before the annual debate on Indian estimates. Like other select committees, it would have no administrative functions. The Secretary of State would appear before it to answer questions about those aspects of Indian administration in which he, and therefore Parliament, continued to exercise the right to interfere......There would thus soon grow up a body of men in Parliament who took a continuous and well informed interest in Indian questions; and by the committee's reports the House of Commons would be invited to focus their attention in the debate on the Budget on matters of importance which had arisen during the year." para 295.

† As between the Select Committee and Decennial Commissions of inquiry, the latter must necessarily be of secondary interest from the point of view of continuous attention to Indian questions. But the Commission would resuscitate an old expedient under the Company's rule,—the periodical Parliamentary Commission of inquiry on Indian affairs. Judging from the good these twenty-yearly inquiries are supposed to have done in financial matters, there is reason to hope that the new commissions may also prove fruitful in their own way.

the same time it carefully neutralised the entire concession, not only by the institution of a second or revisory chamber with very considerable powers of approval, if not of initiation, in the department of finance; but also and more particularly by specifically entrusting the extraordinary power of overriding the decision of the Assembly to the Viceroy, on the convenient excuse of maintaining the peace and tranquillity of the country. This device of the Viceroy certifying, and thereby passing, a budget thrown out by the Assembly is by no means a dead letter, as such extraordinary powers have become in other countries. These provisions may be a necessary stage in the political evolution of the Indian constitution; but while they obtain, they cannot but prevent the materialisation of effective popular control.*

The Government of India are, therefore, the effective controlling authority in Indian finance; and they are not responsible to the Indian people. It is true, the Government of India have a Legislative Assembly in which the official majority no longer prevails. But in all essential matters the Government of India retain their absolute power. The Viceroy has the right, as before, to veto measures of the Legislative Assembly, and to pass his own measures by means of Ordinances. In exceptional cases, an official majority can be called into being, if necessary, to carry out the wishes of the Government of India over the heads of a dissentient majority in the Legislative Assembly† though this exceptional procedure may not be applied in the

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* The power was used, in fact, steadily, in part or in the gross, by the Governor-General since 1924. In the provincial governments, the vetoing of grants for ministerial salaries in Bengal and in the Central Provinces led to a suspension of the Reforms in those provinces after 1924. An excellent study of the rules and precedents governing the preparation, passage and execution of the central as well as the Provincial budgets, as also the budget of certain departments like the railways, is provided by the monograph of Mr. P. K. Wattal, called "*The System of Financial Administration in British India.*"

The forms and the appendices, containing rules of devolution and procedure, are by no means the least important or instructive portion of the work, which is the production of a man intimately conversant with the technique and procedure of budget making in India, and a scholar acquainted with the similar practices in the other countries of the world.

† "What we seek is some means for use on special occasions, of placing on the Statute book, after full publicity and discussion, permanent measures to which the majority of members in the Legislative Assembly may be unwilling to assent. We seek deliberately, when the purpose justifies us, to depart from popular methods of legislation; and it is obvious that no device which conforms to those methods can possibly serve our purpose. For this purpose we have come to the conclusion that we should employ the method now familiar to Indian institutions of maintaining such a number of votes, upon which the Government can in all circumstances rely, as to ensure the passage of the legislation it requires. It is here alone, and only (as will be seen hereafter) for use in cases where it is obviously necessary, that we propose to perpetuate the official **bloc**" (Para 276 of the Report. See also para 279).

† "Fiscal legislation will, of course, be subject to the procedure which we have recommended in respect of Government Bills. The budget will be introduced in the Legislative Assembly, **but the Assembly will not vote it.** Resolution upon budget matters and upon all other questions, whether moved in the Assembly or in the Council of State, will continue to be advisory in character. But since Resolutions will no longer be defeated in the Assembly by the vote of an official majority, they will, if carried, stand on record as the considered opinion of a body which is at all events more representative than the Legislative Council which it displaced. That in itself will mean that the significance of the resolutions will be enhanced; there will be a heavier responsibil ty upon those who pass them because of their added weight, and the Government's responsibility for not taking action upon them will also be heavier." Para 284, Ibid.

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Only a limited amount of the total expenditure is subject to the vote of the Assembly, and this is carried out in the form of demands for grants. The Assembly has, since 1924, thrown out the Budget, or the portion thereof which was voteable by it, either integrally or through the medium of an important grant therein, as an expression of its dissatisfaction with the existing political arrangements.

case of the Finance Bill.* That these measures are in their nature extraordinary, and cannot be resorted to except on very rare occasions, does not detract from their being powerful weapons in the hands of the executive and evidence of distrust of the Indian element in the government. Even in ordinary cases, the Viceroy can, under the reformed constitution, pass a measure over the head of the Legislative Assembly by *certifying* that in his opinion it is necessary for the peace, order, and good government of the country. What applies to general legislation applies also to budget procedure. The Indian Budget still remains largely the child of the executive government, and cannot be voted upon by the Legislative Assembly.† There is, no doubt, the power to move resolutions on the budget; and there is no longer the dread that the resolutions will be defeated, as heretofore, by the votes of a standing official majority. But the Government are not bound to accept or give effect to these resolutions, which would thus be worthless from the standpoint of exercising effective control, whatever the moral value of such an expression of public opinion officially recorded may be.†

It is thus only in the regions of provincial finance that we can find, under the new reforms, a degree of control accorded to the Indian representatives. The financial organisation in the provinces is unavoidably complicated by the idea of Diarchy. The division of funds is necessary between the Reserved Subjects and the Transferred Subjects; the need for increased expenditure on Transferred Subjects, which include the departments most intimately concerned with the real task of rebuilding the Indian nation, is equally potent;‡ the importance of finding funds for either half of the provincial government is beyond question. At the same time all the laboured enunciation of the principles of provincial autonomy would be futile if no degree of local legislative control were accorded to the provincial legislature. Hence the report recommended that the provincial budget should be framed by the executive government as a whole, *i.e.*, Ministers and Councillors acting together. The order in which the provincial funds are to be employed is: first the contribution towards the expenses of the Government of India; next the amount needed for the reserved subjects; finally, the money wanted for the transferred subjects. By considering the budget in the whole government, opportunities are afforded to ministers to acquaint themselves with reasons requiring a proposed supply for the reserved subjects, and to put in their dissent if need be. By

* The suggestion was, however, freely made when the Currency Bills were placed before the legislature in 1927, that, if necessary, they would be passed by means of this extra-ordinary procedure.

† General discussion of the budget may be, according to a subsequent concession, on subjects voteable by the Assembly as well as those non voteable. cp. Wattal op. cit. pp. 59-63.

‡ "We now come to the crucial question of the budget procedure. It is more difficult than that of legislation, because while legislation on a reserved subject may clearly not impinge on transferred subjects, money devoted to reserved objects of expenditure can, with some sort of reason, be always represented as being diverted from the transferred objects. There must, therefore, be means of securing that the executive council shall be able to find the money to keep the administration of the reserved subjects efficient, and there must also be means of securing that to the expanding cost of the transferred services a fair proportion of the total revenues is devoted." Para 255, *Ibid*.

leaving the transferred subjects, which would be constantly expanding, to be provided for last, the deficit, if any, will appear to be incurred for a transferred subject, and taxation would have to be proposed accordingly by a Minister.* The budget comes next before the provincial Legsilative Council which may discuss it, and vote upon it according to the demands for grants submitted by departments by each member of the government in charge of the same. But neither in this case, nor in the case of the Government of India, has the Legislature power, under the Reforms, to vote upon and pass or reject the budget.† The only difference that occurs in regard to provincial budget procedure is that the resolutions of the council on transferred subjects would be binding upon the government, and must be given effect to.

The report assumed that the entire revenues of a province would be brought into one provincial treasury, and from thence funds would be allotted to the respective services as provided in the budget. In commenting upon this arrangement the Government of India observed: " But we must point out that even reasonable men will, at times, in all good faith, differ vitally from other reasonable men, when it is a question of providing supply for work, which the former are responsible for safeguarding and developing, while the latter are only concerned in getting a share of the money for other work."‡ They pointed out the possibilities of a genuine difference of opinion on the following points:—

" (1) How, to what extent, and by whom, the balance at the credit of a province may be drawn upon;

(2) How money can be obtained either by taxation or by borrowing for the needs of a reserved subject;

(3) How the liability for the interest and sinking fund charges of a loan can be laid upon the authority for whose purposes the loan was raised; and

(4) How the proceeds of taxation are to be secured for purposes which renders the taxation necessary."

On all these questions they considered the system of a single fund for provincial demands would not work. Given the diarchy, the Government of India considered the resources of each half should be kept apart, as no definite regulation made in advance could serve the object of avoiding conflict of opinion.§ Besides, they thought it fundamentally false to leave room for the belief in the minds of either half of the provincial government that the encroachments of the other deprived it of its legitimate field for

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* We may note that the Report avails itself of a convention of the British constitution in the interests of economy, *viz*. that no money can be voted, nor taxation proposed, by the Legislature except on the motion of a Minister of the Crown.

†" If the Legislative Council rejects or modifies the proposed allotment for reserved subjects, the Governors should have power to insist on the whole or any part of the allotment originally provided, if for reasons to be stated he certifies its necessity in the terms which we have already suggested. **We are emphatically of opinion that the Governor in Council must be empowered to obtain the supply which he declares to be necessary for the discharge of his responsibilities.**" Para 256 of the Report. The right hand gives what the left hand takes away in this provision,

‡ Para 65 of the Reform Despatch No. 1.

§ Para 69 of the Reform Despatch No. 1.

expansion. Neither the popular nor the executive half should be in a position to refuse funds to the other. The Government of India also felt that the scheme offered no incentive to economy, or development of the resources whether under the reserved or the transferred subjects, for "under the pooling system any improvement which either half of the government can effect goes into hotchpot, and they get no direct advantages from it, possibly no advantage at all."* The Government of India proposed their solution—breaking up of the provincial resources into two distinct sections. The credit balances, the revenues, the surplus and the expenditure, should, after a careful inquiry and necessary adjustments, be allocated exclusively to each half of the government concerned in the matter.†

For the two halves of the government in the provinces, with their distinct purposes, the Government of India recommended a single finance department, presided over by an officer to be the financial adviser of the local government.‡ The functions of this new finance department have been thus defined: "It is in no sense an overriding power. It is not a body that either dictates or vetoes policy. It watches and advises on the financial provisions which give effect to policy. It criticises proposals and can ask for further consideration. It points out defects in methods of assessment and collection; it can demand justification of the new expenditure from the department which proposes it; it can challenge the necessity of spending so much money to secure a given object."§ Of course, the powers of this new department must be identical as regards either half of the government. In addition to this finance department, acting as the watch dog of the public purse, there is the Legislative Council. Though the powers of the council are only those of scrutiny and recommendation, and not of a definite disallowance of expenditure, that body in the opinion of the Government of India, with its committee on public accounts, can serve a very useful purpose in securing efficient control of the actual administration of finance.||

V.—The Indian Audit System

Constitutional provisions for the safe-guard of public expenditure are, in the nature of things, general principles indicating the course to be followed. The machinery to certify that the course has in fact been followed, that no departure has taken place from the approved course, or that, if it has, effective safeguards are immediately put into operation to correct the error and prevent its repetition, is to be found in a well-devised audit system.

* *Ibid.*

† Para 70 of the Reform Despatch No. 1.

‡ The officer will be appointed by the Governor on the advice of his Ministers. To be effective, this appointment should be definitely placed outside any possibility of popular favour or disfavour. Cp. also Wattal op. cit.

§ Para 74 of the First Despatch of the Government of India on Reforms. The duties have been thus summarised in para 75.

|| "Before this Committee we propose that all Reports be laid from the Finance Department on excess of reappropriations exceeding a limit which will be prescribed."

The Indian audit system is so obsessed with codes and formalism that it can scarcely be expected to satisfy the requirements that such a system should possess in a democratic government. It works with a mechanical precision, which never challenges the wisdom or propriety of expenditure incurred under orders of an apparently competent authority. The system is so vast that we can hardly hope to reproduce here even its most salient features in the briefest form.* Luckily its obsoleteness determined the Government of India, soon after the introduction of the constitutional changes in 1920, to overhaul it and provide an entirely new system for the audit of public accounts under the new regime.

The main objection against the old audit system was that it was mixed up with other functions not at all connected with auditing. The Auditor-General, for instance, is also Comptroller-General of Currency, though the two offices have nothing in common.† **The first reform,** therefore, **which would confine the audit system only to an examination of public**

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* The following extract from the Welby Commission may, however, be appended to show its general features: "The chief auditor of the Indian Empire is the Comptroller and Auditor-General, a high officer of the Central Finance Department at Calcutta. The actual audit of expenditure, however, takes place not in Calcutta, but in the provinces where expenditure is incurred............The officers in charge of the District Treasury chests send at the close of each month to the head-quarters of the province an account with vouchers of their receipts and issues during the month. (The whole of the Indian expenditure is paid through the District Treasuries.) Thus the whole of the public expenditure of the province comes before the audit officer at the head-quarters of the province.........The Accountant-General audits in detail all the issues for civil administration, whether central or provincial. Immediately after the close of the month, officers charged with civil expenditure send their accounts for the month with vouchers to the headquarters of the province. The Accountant-General then begins his audit. His officers are guided and bound in their work by a minute and exhaustive code of regulations, and they disallow items which are insufficiently vouched, which are not covered by proper authority, or are otherwise not in accordance with the Act or regulations. The disbursing officer has, of course, opportunity for explanation, and the Accountant-General accepts or rejects the explanation. If the Accountant-General rejects the explanation, he orders recovery of the money wrongfully disbursed, and the Treasury Officer is bound to enforce the recovery. If, however, the person from whom the recovery is to be made appeals to the Local Government, and that Government supports him, recovery may be suspended pending reference to the Government of India. All objections which are raised by the auditing officers are entered in a book, and the Accountant-General is specially enjoined to give attention to this book, which he formally reviews once a quarter. Any objection as to which the Accountant-General entertains doubt is referred to the Comptroller and Auditor-General.........The book of objections is open to the inspection of the officers whom the Comptroller and Auditor-General sends to perform the test audit.........Each account is audited by the middle of the month succeeding that to which the expenditure belongs, and the audited accounts are then submitted to the Comptroller and Auditor-General by the Accountant-General, who, if he thinks fit, attaches his own comments............The audited accounts reach Calcutta towards the close of the month following that to which the expenditure relates.........He (the Comptroller and Auditor-General) consolidates these various accounts into one general account for all India, which he lays before the Financial Member of the Council in six weeks or two months after the expiry of the month to which the expenditure belongs." Para 72, Majority Report, *Welby Commission.*

There is a similar audit system for the Army and Public Works Department.

† "The explanation of this anomalous combination of functions is probably to be found in this that when the Government of India took over the function of note issue from the Presidency Banks, and set apart a certain reserve against the notes to be invested in Government Securities, the necessary work of accounting suggested the Comptroller and Auditor-General to be the best officer to look after the whole currency system.

accounts, must start with relieving the audit officers of their currency function. The auditor, who must be an independent, dignified officer, free and competent to perform his functions, would be secured by making that department entirely outside the ordinary machinery of Government, the auditor's salary being somewhat in the nature of a Consolidated Fund Service Grant in England, his appointment to hold good during good behaviour.* The audit officers, moreover, will not be performing the higher functions which might be expected of them in the early years of popular government in India, unless they are able and authorised to rely more on their judgment and discretion than on the mere mechanical work of going through the accounts item by item. The auditor's real work would lie not in examining rules and precedents, but in scrutinising the authority as well as the necessity for a given item of expenditure.† If the entire audit system is revised on these principles, the Government of India expect its operation in practice somewhat as follows :—

> "Each audit report which deals with provincial subjects will be submitted to the Governor for communication to the executive authority concerned, whether member of executive council or minister. Copies will go simultaneously to the Finance Department of the province, which will take orders upon the report. In the case of reserved subjects, the Governor-in-Council will dispose of the report, and will have power to condone surcharges and disallowances, except where they relate to definite infringement of orders from the Secretary of State or the Government of India. In the case of transferred subjects, ministers will have an exactly corresponding position. But in each case the Finance Department will place the report and the orders upon it before the Committee on public accounts. Where orders from the Government of India or the Secretary of State have been infringed, it will refer the matter to those authorities through the Auditor-General. Otherwise, the Committee on public accounts will have the right to examine all audit objections and executive orders passed upon them, and to make recommendations to the Legislature. It will then be for the Legislative Council to decide whether to move resolutions in regard to any matter which in their judgment requires more discussion or publicity. * * * In this sketch of procedure there is nothing that derogates from the right of a provincial audit officer to bring financial irregularities to the notice of his local government, or of the Auditor-General to bring to the notice of the Secretary of State any matter in which he considers that the action of a local government has been perverse or contrary to public interest." ‡

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* The Government of India proposed, in their First Despatch on the Reforms, that the Auditor-General be given a Statutory position of independence, and that his staff be similarly protected. See para 77.

† "The audit will not only see whether there is quoted authority for expenditure, but will also investigate the necessity for it. It will ask whether individual items were in furtherance of the scheme for which the budget provided; whether the same result could have been otherwise obtained with greater economy, whether the rate and scale of expenditure were justified under the circumstances; in fact, they will ask every question that might be expected from an intelligent tax-payer bent on getting the best value for his money." *Ibid.*

‡ Para 78 of the First Despatch.

The only fault that we have to find with this outline of the constitutional aspect of public audit is the wide latitude of powers it leaves to the Governor-in-Council as regards reserved subjects expenditure. A full control of public expenditure requires that it should be equally subject to a review in all its items by representatives of the people, as for example, through the committee on Public Accounts.

PART VIII

Currency and Exchange

I.—Introduction

I have already discussed the evolution of the Indian Currency system from the days of the Company down to the end of 1922 in my work on *Indian Currency, Exchange and Banking*. The origin and working of the present system based on the Gold Exchange Standard have been there explained and criticised. I shall, therefore, here confine myself only to a discussion of the effects of the war upon the Indian Currency, the problems that had arisen in consequence,* the solution proposed by the Babington-Smith Commission, and the latest phase including the recommendations of the Hilton-Young Commission of 1925–26, and a brief critique of the same.

When the last Royal Commission on Indian Currency and Finance wrote :—

> "Our view is that India neither demands nor requires gold coins to any considerable extent for purposes of circulation (as opposed to saving or hoarding), that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes while providing—and this is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations,"

none of the members of that body envisaged or contemplated a situation at all similar to the one that developed as the result of influences at work during the war. For sixteen years after the value of the rupee had been fixed at an arbitrary figure, 1*s*. 4*d*., it was so maintained; and facilities were offered for the conversion of the rupee for purposes of settling India's international obligations or dues within points ascertained to represent the cost of transport of bullion to and from India. In the first days of the war, the situation was so far similar to that contemplated by the Chamberlain Commission that the Government, acting in the spirit of the Commission's recommendations, had to afford a guarantee for the maintenance of the exchange value of the rupee in terms of the international medium of payment: gold. For the first few months of the War the guarantee was practically utilised, and Reverse Councils to the total amount of £8·7 million were sold in India to be paid in England out of the Gold Standard Reserve. From and after the commencement of the financial year 1915–16, the situation began to alter perceptibly. The large outlay of the Government of India on behalf of the British Government, increasing every year in amount, more than balanced

* Much of what follows is the substance of an article contributed by the present author to the Mysore Economic Journal in October 1919.

the obligations of the Government of India payable in England as Home Charges. The invisible imports of India, averaging £20 million a year, were thus met by the recoveries of the Secretary of State from the British Exchequer, and one great factor in influencing Indo-British exchange was temporarily reversed.* On the other hand, as the war continued, trade began to be adjusted to the new conditions; the exports of the Indian produce began to increase in value if not in quantity, thanks to the urgent war demands of the Allies. On account of diversion of freight for military transport purposes, and later on, on account of its absolute scarcity, combined with the change in English industrial organisation for the production of munitions, the imports of foreign produce into India were steadily diminishing as the subjoined table shows.

Year.	Exports.	Imports.	Net Exports.
	£	£	£
1909–10	125,253,000	70,040,000	47,213,000
1910–11	139,921,300	86,236,000	53,685,300
1911–12	151,896,100	92,383,200	59,512,900
1912–13	164,364,800	107,343,900	57,020,900
1913–14	165,919,200	122,165,300	43,753,900
Average for 5 years ...	149,470,900	97,233,700	52,237,200
1914–15	121,051,100	91,952,600	29,108,500
1915–16	131,586,800	87,560,200	44,026,600
1916–17	160,591,200	99,748,000	60,843,200
1917–18	161,700,000	100,280,000	61,420,000
1918–19	169,230,000	112,690,100	50,540,000
Average for 5 years ...	148,833,000	98,446,100	50,387,700

A large balance thus arose in favour of India, which was all the more significant because the old converse stream of payments from India in the shape of Home Charges had dwindled into nothing. The prevalence of high income and property taxes in the United Kingdom had, moreover, induced the English merchants and capitalists in India to postpone the remittance of their profits to England, and to re-invest them in industrial or other securities in India itself pending a more favourable opportunity for such remittance.

The mechanism of exchange was thrown out of gear. The Councils, originally used to meet the Home Charges, were, according to the recommendations of the Chamberlain Commission, to be used to liquidate the trade balance if the resources of the Government permitted.† They were now used (since the financial year 1915–16), almost wholly for purposes of financing the trade balance. In the first year of the period (1915–16) Government maintained at the fixed rate of exchange an unlimited sale of councils, sufficient in fact to meet and liquidate the entire balance in favour of India. But the strain

* The amount of the recoverable expenditure incurred by the Government of India on behalf of the Imperial Government between 1914 and 31–3–1920 exceeded £240,000,000. Para 13 of Report.

† "It may be said that it was necessary for Government to supply up to the limit of their power the demand of trade for funds in India. We have already said that we do not favour the view thus implied. The interests of trade are, indeed, of high importance, but it is not the business of Government to favour trade at the expense of general revenue." (Cp. Chamberlain Report).

began to grow as each week a larger amount was demanded. The encashment of the council bills at the treasuries of the Government of India, or at the presidency banks, was to be made in rupees or notes, which could only come from reducing the Government balances, or increasing the invested portion of the Paper Currency Reserve, and thereby freeing an equal amount of rupees for circulation, or coining fresh rupees.

II.—War and the Indian Currency System

Thus, then, the Government of India had, during the greater part of the war period, to face an entirely new situation. In spite of the heavy, almost lavish investments in the English war securities, the balance in favour of India could not all be met. The gold, which in years immediately preceding the war, was becoming more and more acceptable to India for settling the trade balance due to her, was, under war conditions, impossible to obtain, belligerents and neutrals guarding and adding to their gold reserves with an uncanny jealousy.* The only alternatives open to the Government of India were: to coin new rupees,† to add to the note circulation,‡ and, when both these were used to the utmost limits of prudence

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Year.	Net Import of: Gold coin and bullion.	Net Import of: Silver coin and bullion.	Total.
	£.	£.	£.
1909–10	14,446,000	6,242,000	20,688,000
1910–11	15,986,000	5,714,000	21,700,000
1911–12	25,178,000	3,828,000	28,706,000
1912–13	25,052,000	4,383,000	29,435,000
1913–14	15,550,000	4,163,000	19,713,000
Total ...	96,212,000	24,030,000	120,242,000
1914–15	5,637,000	6,676,000	12,313,000
1915–16	3,267,000	3,717,000	6,984,000
1916–17	2,797,000	1,440,000	1,357,000
1917–18	14,306,000	971,000	15,277,000
1918–19	15,000	38,000	53,000
Total ...	26,022,000	9,962,000	25,984,000

†

Year.	In open market. (Standard ounces.)	Silver purchased or imported from the United States Dollar Reserve. (Equivalent in standard ounces.)
	£.	£.
1915–16	8,636,000	
1916–17	124,535,000	
1917–18	70,923,000	
1918–19	106,410,000	152,518,000
To 30th Nov. 1919. 1919–20	14,108,000	60,875,000
Total ...	324,612,000	213,393,000

‡

Date.		In lakhs of rupees. Gross note circulation.	Reserve. Silver.	Reserve. Gold.	Reserve. Securities.	Reserve. Total.	Percentage of total metallic reserve to gross note circulation.
31st March	1914	66·12	20·53	31·59	14·00	66·12	78·9
„	1915	61·63	32·34	15·29	14·00	61·63	77·3
„	1916	67·73	23·37	24·16	20·00	67·73	70·5
„	1917	86·38	19·22	18·67	48·49	86·38	43·9
„	1918	153·46	37·39	17·49	98·15	153·46	35·8
„	1919	98·79	10·79	27·52	62·48	98·79	38·4
30th Nov.	1919	179·67	47·44	32·70	99·53	179·67	44·6

or good faith, to raise the exchange value of the rupee.* Between April 1915, and the end of 1918-19, nearly 120 crores of new rupees were put into circulation. The note circulation which was about Rs. 68 crores on 31st March 1914, rose to over 166 crores.

In spite of the concurrent application of all these remedies, the situation by no means improved. The Committee appointed in 1919 to consider the whole question and to advise upon it indicated the gravity of the situation, at the same time that it afforded an opportunity fundamentally to reconsider the entire currency organisation of India. The subjoined table gives in a concise form all the important factors of the situation as they prevailed in the war years :—

The figures are in crores of rupees except in the last two columns.

Year.	Exports.	Imports.	Excess.	Councils.	Home Charges	Gold Import.	Silver Import.	Recoverable Expenditure.	Rs. coined.
1909-10	187·96	122·65	65·31	40·54	29·68	21·67	9·44		2,17,56,166
1910-11	209·96	133·70	76·25	40·02	29·37	23·98	8·63		2,19,25,112
1911-12	227·99	144·45	83·93	40·83	23·93	37·76	5·33	In	2,80,74,320
1912-13	246·21	166·63	79·58	38·50	30·42	34·00	17·20	million	19,53,69,944
1913-14	249·00	191·30	57·70	46·59	30·46	23·32	13·03	sterling	13,15,68,537
1914-15	182·17	144·93	37·24	11·68	30·31	7·64	8·87		2,17,95,336
1915-16	199·48	138·17	61·31	30·36	30·16	—1·10	4·83	18·6	1,62,02,109
1916-17	243·04	160·23	82·81	49·04	31·72	13·23	13·80	38·5	30,77,07,327
1917-18	244·89	164·35	80·53	51·28	39·10	25·17	19·04	65·00	23,15,69,657
†1918-19	255·27	188·56	66·71	31·35	...	...	...	76·0	......

By a comparison of the figures already quoted, it will be seen that :—

(*a*) While in the quinquennial before the war the net excess of exports of merchandise on private account amounted to Rs. 362·79 crores, during the war quinquennial the excess on the same account was Rs. 328·62 crores; if we include the transactions of the Government, the net excess in the former period was Rs. 391 crores, and in the latter Rs. 381 crores.

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*

Date of Introduction.	Minimum rate for immediate Telegraphic Transfers.	
3rd January 1917	1	4¼
28th August 1917	1	5
12th April 1918...	1	6
13th May 1919	1	8
12th August 1919	1	10
15th September 1919	2	0
22nd November 1919	2	2
12th December 1919	2	4

† These figures are from the April issues of the "Capital" the others from the statistics of the Government of India.

(*b*) The net import of gold on private account during the first period was Rs. 144 crores and of silver Rs. 36 crores, or a total import of precious metals of Rs. 180 crores. Against these in the following five years the total imports of precious metals were Rs. 55 crores. The gold import almost entirely fell off, the total for the period being Rs. 39 crores, of which Rs. 18 crores were acquired by the Government, leaving only Rs. 21 crores for private absorption. Hence the demand for silver, hence the heavy purchase of silver by the Government of India, the rise in the price of silver forced by them against themselves, and, finally the rise in the rate of exchange.

(*c*) The recoverable expenditure of over £240 million more than set off the Home charges amounting to about £100 million, and facilitated considerable investments in British securities.

III.—The Remedies of the Government of India

We have deliberately left out in this brief review of measures adopted by the Government of India those restrictions on trade finance which were tolerated only on the excuse of the supreme necessity of finishing the fight successfully. They were, besides, in their nature nothing but palliatives, which might lull the patient to sleep, but could not cure him of his malady. Thus war-time restrictions on financial facilities to exporters from India by requiring the banks to curtail their accommodation except to those dealing under Government license, or those able to provide full cover, would, in normal times, have been resented by the bankers, who could have easily rendered such restrictions ridiculous. And even in war-time, the banks were bound by no law to respect those wishes of the executive, except for fear that on default they might be cut off from such share of the council bills as would otherwise fall to the lot of the complacent banks. But though the banks did, to some extent, carry out this policy of restricted finance, it is doubtful if it was really helpful in reducing the strain. Similarly, prohibition of certain classes of exports, though restricting trade in those articles, did not affect the excess in value of the exports over the imports, and consequently can scarcely be described as a successful expedient in saving the exchange situation. The only remedy of this description, which may at all be said to have been successful, was the Gold Import Act.* The forcible acquisition by the Government of all imports of treasure on private account, coupled, later on, with restrictions on the export of rupees or silver bullion from India, deserved a better fate, and might have been more successful if it had been applied earlier. The object of these measures was to prevent speculative purchases of the precious metals; and by centralising their supply in the hands of the Government, to provide an abundant supply as far as the demand was a genuine trade demand. Unfortunately

* 29th June 1917. The gold so obtained was kept in the Paper Currency Reserve as a backing against additional notes.

the measures were adopted at a time when the crisis had already become tensely acute. The influence of the speculative element was by no means confined to the Indian market. The world at large had agreed to a tacit conspiracy to withhold gold from India. The Government of India were known to be considerable purchasers of silver. There was, therefore, no reason why the shrewd Yankee should not make a profit as much from his silver resources, as from the other supplies he offered to the belligerents. It is quite true that the Government of the United States of America had, since 1917, offered to co-operate with the Government of India in keeping the price of silver within bounds; but those bounds were fixed at a time when the price of silver had already broken its records for the last thirty years or more. Consequently, in fixing the price the two Governments had necessarily to consider existing conditions, and not the conditions which obtained before the war. The American restrictions on the price of silver, moreover, were imposed only for the duration of the war; and as soon as the war was definitely over, those restrictions were removed, with the result that we in India suffered from a most acute silver shortage in the first year of peace. Two rises in exchange in 1919 came too closely on the heels of the removal of American restrictions not to raise a reasonable suspicion that the market had been kept in check by the co-operation of the American and Indian Governments, and that the moment that co-operation was withdrawn the actual situation would, as it did, assert itself.

Taking seriatim the three principal remedies of the Government of India,—coining more rupees, adding to the note circulation, and raising exchange,—the first had definite limits put upon it, not only by the scarcity of supply and the consequent rise in the price of the material, but also by the undesirability of adding too much to the circulation.* In his interesting *Report on the Rise in Prices in India*, Mr. Dutta gives the following table showing the growth in the circulating medium and its effect in prices.

* There is no longer any room for doubt that the resultant increase in the expense of living due to high prices of food grains, and also of other necessaries such as cloth, kerosine oil, and the hardships which this increase has entailed on the poorer classes and those with fixed incomes, have been a very important factor in promoting unrest and discontent. At the same time the cultivator, who would ordinarily be the first to profit by the high prices of produce, whether food grains or other raw material such as jute and cotton, has seen his profits disappear owing to the simultaneous rise in the price of other necessities. The wages of manual labour have no doubt been to some extent readjusted, and ultimately the wages of the clerical labour and other classes of employees will undergo a similar readjustment. But the process of adjustment, however rapid, must invariably be a painful one, which no amount of administrative palliatives, such as control of distribution, can alleviate.

Growth in currency notes and rupees in active circulation.

Year.			Circulation crores.	Index.	Year.			Circulation crores.	Index.
			Rs.	No.				Rs.	No.
1884	...	...	115	88	1899	...	...	131	100
1885	...	...	118	90	1900	...	...	134	103
1886	...	...	117	90	1901	...	...	130	115
1887	...	...	116	89	1902	...	...	143	109
1888	...	...	118	90	1903	...	...	147	113
1889	...	...	123	94	1904	...	...	152	116
1890	...	...	120	92	1905	...	...	164	126
1891	...	...	131	100	1906	...	...	185	142
1892	...	...	141	108	1907	...	...	190	145
1893	...	...	132	101	1908	...	...	181	139
1894	...	...	129	99	1909	...	...	198	152
1895	...	...	132	101	1910	...	...	199	152
1896	...	...	127	97	1911	...	...	209	160
1897	...	...	125	96	1912	...	...	214	164†
1898	...	...	122	93					

He concludes however :—" This increase in the volume of metallic currency does not, however, appear to have been larger than what has been required by the growth of the business and other demands for currency." But since his report there were added during war-time to the circulation about 150 crores of rupees newly-coined, of which 120 crores were estimated to have been minted during the war years, and about thirty crores fresh coinage during the three years before the war; about 120 crores in round figures to notes in circulation; and a certain amount of gold coins, about £40

† Year.			Special Index Number for Food grains (retail prices.)	Special Index Number for imported articles (wholesale prices.)	Special Index Number for exported articles (Mostly wholesale).	General Index Number for articles covered by 2 & 3.
1910	...	...	100	100	100	100
1911	...	...	96	104	107	106
1912	...	...	112	107	114	112
1913	...	...	118	107	121	117
1914	...	...	122	105	126	120
1915	...	...	130	134	122	125
1916	...	...	120	217	128	151
1917	...	...	120	240	134	161
1918	...	...	161	265	157	184

The table exhibits the rise in Indian prices since 1912, the year 1910, being taken as the basic year for the preparation of the table. It may be noted that prices of imports increased by 265 per cent. while those of exports only by 157 per cent.

million worth of sovereigns* in all. Against the estimated total circulation of 214 crores of rupees and notes in 1912 as reported by Mr. Dutta we shall be guilty of no over-estimate if we put the total currency resources of India in 1920 at 600 crores in all, of which rupees would account for at least 300 crores, notes for another 166 crores, and gold coins 120 crores *roughly.*†

Mr. Dutta, in the table appended, found the rise in the index numbers of nearly the same proportion as the rise in the volume of circulation, varying from year to year also in very nearly a direct ratio. He, nevertheless, as shown by the quotation, does not quite consider the increase in circulation as being responsible for the rise in prices, the increased circulation being, in his opinion, necessary for the expanding of the business. Even admitting his position, there is no reason to believe that corresponding to the increase in the circulating medium during the war years there has been a similar expansion in the volume of business. The total amount of foreign trade, for example, as can be seen from the table given elsewhere, was not much greater in the war years than in the previous years. And, if anything, the banking facilities during the war were much increased, as shown by the opening of new banks, as well as the more extensive use of credit documents. Against the 585·82 crores worth of cheques in 1913–14, which was the largest pre-war number, there were 851·15 crores cheques cleared in 1917–18 in the four clearing houses of Bombay, Calcutta, Karachi and Madras. The capital and reserves, the public and private deposits, all tell the same tale of increase. We cannot but conclude that this increase in the medium of circulation had an undesirable effect on the price level.

* In the table appended Mr. Dutta has not included the number of sovereigns in circulation. We get the amount by the marginal table, compiled from the report of the Comptroller of Currency. We cannot get accurate statistics regarding the absorption of gold coins during the war years. But the figures given here, if totalled, would show a total gold absorption in the first fifteen years of the present century of close upon £70 million=Rs. 100 crores at the old rate. It may be that for purposes of circulation the gold coins thus shown to have been absorbed in India may be left out of account, since there is no reason to believe they might be used for hoarding purposes. But it must be remembered that these are coins, as distinct from gold bullion imported in almost equal quantity during the same period; and that therefore, the probability is not quite so strong for believing that they constitute almost wholly the hoards.

Year.		Net addition of sovereigns in public hands in million sterling. £
1901–02	...	·967
1902–03	...	2·198
1903–04	... 3,278	2·937
1904–05	...	3·732
1905–06	...	5·156
1906–07	...	7·427
1907–08	...	3·443
1908–09	...	2·866
1909–10	...	8·091
1910–11	...	
1911–12	...	8·861
1912–13	...	11·300
1913–14	...	3·907
1914–15	...	5·623

† The estimates of existing circulation are based on the figures of notes and rupees said to have been coined or added during the period under review. It may be that when the rupee was almost as valuable as coin as it was as metal, there may have set in a greater tendency for melting and exporting it than was the case in the early years of the century. But the measures adopted by the Government rather incline us to hold that the tendency, if any, must have been checked almost at its inception, except for that portion of the export of rupees, unknown to the public, for which the Government itself must be responsible in connection with the Mesopotamia campaign.

The problem of financing the trade balance in favour of India, if dependence was placed exclusively on the coinage of new rupees, was bound to be unpleasantly complicated in the near future, and for some time to come. The world production of silver was falling off as shown by the figures below* at a time when the world's demand for silver is rising to previously unthinkable proportions. The Government of India have been the most considerable buyers in the world market; and if that demand continued, there would be no hope of reducing the price of silver, assuming that it was capable of reduction. The Government of India were in the unfortunate position of tying up their own hands in advance, by tacitly promising to convert the local into the international currency, and *vice versa*. It would be no real solution of the problem to suggest the maintenance of the exchange value of the rupee by a reduction in the weight of the rupee.† Not only would it be a breach of faith, which might be tolerated if the emergency was so desperate; it would introduce the most unwelcome confusion in the credit relations of private parties as well as the Government. The experiment, if tried, must face a not unreasoning distrust of the public, as well as the possible contingency of melting operations on a much larger scale. If we assume that there were then at least 300 crores of rupees in circulation, of which one-half might be melted down by such a temptation, the Government would have to face a serious demand for rupees without improving their position in exchange very considerably. Their demand for silver, even to coin a debased one, would keep up the world price of silver against them. It is, indeed, possible that the supply may be added to by such melting. But as far as the Government were concerned, if there be any truth in the legend about the hoarding propensities of the Indian people, there would be no relaxation of the strain.

The alternative of adding to the paper money in circulation, was no better. The amount of paper in circulation, judging from previous experience, had increased beyond all reasonable requirements, even allowing liberally for the increased popularity of notes on account of greater familiarity forced by the war. The increase was not brought about by the natural process of normal expansion of credit and the consequent supersession of cheaper for more costly forms of circulating media, but by

* Mine production of Silver (in Fine Ounces, 000 omitted.)

Year.		Canada.	U. S. A.	Mexico.	Rest of the world.	Total of world.
1910	...	32,869	57,599	71,372	57,249	219,089
1911	...	32,559	61,109	79,033	57,683	230,384
1912	...	31,956	66,041	74,640	60,423	233,060
1913	...	31,806	71,200	70,704	57,966	231,676
1914	...	28,449	69,634	27,547	50,418	176,048
1915	...	26,626	72,369	39,570	47,180	185,745
1916	...	25,460	78,875	22,838	48,283	175,456
1917	...	22,221	70,666	31,214	50,949	175,050

N. B.—The *Statesman's* Year book gives slightly different figures.

† See para 38 of the Babington-Smith Report.

the reckless additions in time and on account of the necessities of the war. As against the slightly more than 20 per cent. of the total currency issued against securities in the period immediately preceding the war, there was at the end of the war nearly 70 per cent. of the total circulation issued against such securities. The bulk of these securities held in England were beyond the control of the Government of India, and they showed a tendency to depreciate.* The paper money, therefore, instead of offering a reliable, sound solution for the problem, constituted itself one of the gravest problems of Indian financial organisation. Further additions to its uncovered portion could not be contemplated, unless inconvertibility be accepted as an ordinary correction of unfavourable exchange.†

The rise in the exchange was the last remedy open to the Government of India to meet the growing balance of trade in favour of India, or at least to curtail it to manageable proportions. Government were, indeed, aware of the gravity of such a step as much as their critics, if we are to judge from the evident reluctance with which the responsible finance ministers resolved upon the step. It was in manifest opposition to the declared policy of the Government, if not in contravention of their solemn obligations, always to afford ready facilities for the conversion of rupees into gold and *vice versa*. There can be no dispute that the rise in exchange would hurt the prospects of the export trade. The attempt was, indeed, made at first to justify the measure as a war necessity. But it was too painfully palpable that even when the war would be over, there was no immediate prospect of restoring the old level of exchange. It could be said, with some justification during the war, that the rise in exchange was not really materially a hardship to the Indian exporter as his goods would be demanded no matter what the prices.‡ There was no effective competition; and the demand was almost unlimited so long as the supplier was willing to accept promises to pay in exchange for goods supplied. But when the war was over, and trade restrictions against erstwhile the enemy countries were removed, and when those countries, stirred on by the double incentive of defeat and indemnity, were busied with their restriction; there was every reason to apprehend that the trade of India would be most gravely prejudiced by the continued rise in exchange.

There was an excuse for the Government of India in that the high exchange supplied them with abundant funds cheaply in England, enabling them to pay off their home charges at a much reduced cost in rupees.§ This is an argument entitled to respect from every financier interested in the stability of the finances of the Government of India. But before the argument could claim to be unanswerable, it must be observed that the saving

* In all over £130 million sterling in the two reserves combined.

† See para 41 of the Babington-Smith Report condemning inconvertible paper.

‡ Nevertheless see the index numbers previously quoted.

§ See para 53. Home charges would save Rs. 12·5 crores a year. Re-valuation of English securities cost India, at 2*s*.=1 rupee, 38·5 crores.

to the Government, even if admitted, was not necessarily a saving to the community. Unless the money thus saved was returned in one form or another to the community, either by remission of taxation or by undertaking works of material benefit, there would be no occasion to plead this saving to the Government as a reason to excuse the rise in exchange. The first peace budget of the Government of India gave no promise of either remission of taxation or undertaking of projects of moral or material welfare of the country in the near future. Even admitting the saving to the Government, it must be remembered that while on an average the home charges amounted in those days to £20 million, on which the saving at £1=Rs. 10, would be Rs. 10 crores, the loss to the trade, on a total export trade of £200 million would be Rs. 100 crores. The saving to the Government would have to be very considerable, or would have to be most beneficially laid out, if it is to be regarded as an effective counterpoise for this loss. Finally, the argument from Government interest in the matter should not be pressed too much. If the constitutional reforms promised during the war were accomplished in times of peace in the spirit in which they were promised, the influence of the home charges must be a steadily diminishing factor. If the important posts in the civil and military administration of the Government of India are held in increasing proportions by the children of the soil; if the greater portion of the public debt of India is held by Indians in this country; if the expansion of Indian industries supplies all the civil and military stores wanted by the Government of India, the chief items of the home charges would begin to be unimportant,—at any rate they would not be sufficient to set off such a considerable loss to the producer as to make that factor entirely disregarded.*

It was this complex question which the Babington-Smith Committee was appointed in 1919 to discuss. The main recommendation of the Committee was to revalue the rupee and give it a 2/- gold basis.† Owing, however, to the premium on gold as expressed by the sterling price of silver and gold, the 2/- gold basis was not the same thing as a 2/- sterling basis. The Government, however, announced their intention to give effect to this recommendation by selling Reverse Councils at a rate in sterling approxi-

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* Two out of the three provisions mentioned seem on the eve of being realised. The Stores Committee has recommended that preference be given to Indian material and manufactures in the purchases for India, and Government seem to have accepted the general principle of the suggestion. Unless the Government of India prove themselves guilty of much worse faith than their most malignant critics have ever suggested, there is every reason to hope that this source of drain will steadily diminish and eventually disappear. As for the second, the Indian Government could not, and therefore did not, borrow in England between 1914 and 1920. The 7 per cent. loan of 1921 raised in England has aroused the most embittered criticism, and seems to have been, if we read aright between the lines in Government communiques, forced upon the Government by the India Office. It is to be hoped that this free gift to Lombard Street at Indian expense will be the last of its kind.

* * * * * *

These passages are left so far almost untouched as in the first edition of this work

† "We have now arrived at the following conclusions :—

(i) The objects should be to restore stability to the rupee and to re-establish the automatic working practicable (para 36.)

[*Continued on page 509.*]

mately the recommended rate as calculated on the basis of the Anglo-American exchange. The heavy fall in that exchange soon after the report was published, stultified the recommendation; and yet the Government of India went on offering to sell bills on London at 2/11*d*. the rupee while the Anglo-American exchange was below \$3·40=£1. This sudden rise in exchange entirely dislocated the financing of Indian commerce. Though trade statistics showed a clear balance in favour of India, unprecedented demands were made upon the Government for remittance abroad.* There was more than a suspicion that the demand represented an outbreak of unjustifiable speculation encouraged by Government policy, the speculators, remitting 3/- nearly and bringing back their funds at 2/- when it was possible. Instead of offering a minimum rate for the Reverse Councils below which they would not be allowed to go, Government offered a maximum upto which they were prepared to sell—a position quite inconsistent with the theory of the gold exchange standard. The funds to meet the Reverse Councils' had to be found from our reserves in England, which had been built up when the pound was at 15 rupees, but which were dissipated when the pound was less than 7 rupees. Government had to confine their offer necessarily to a pre-determined figure, £2,000,000 a week, which was quite inadequate to the enormous demand. If the Government, after fixing a minimum below which they would not allow the rupee to fall, had kept themselves aloof from this business, it is possible that India's heavy balance of trade might have carried the rupee to over 3/- for a time; but if the process of deflation had started meanwhile in Europe, there was reason even then to believe the exchange would have gradually fallen till it reached the maximum prescribed by the Government.

IV.—Recent Currency History

After the disastrous failure they met with in their forced attempts to maintain the Indo-British exchange at 2/- gold at first, and sterling since June 1920, Government retired from the field, and left exchange to take care of itself. The market made a much better rate than Government, exchange eventally stabilising round about 16*d*.=1 rupee the old ratio; though as the pound sterling was itself very much depreciated in comparison to gold, the

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Concluded from page 508.]

(*ii*) The stable relation to be established should be with gold and not with sterling. (Para 57.)

(*iii*) The gold equivalent of the rupee should be sufficiently high to give assurance, so far as is practicable, that the rupee, while retaining its present weight and fineness, will remain a token coin, or in other words, that the bullion value of the silver it contains will not exceed its exchange value. (Para 43.)

After most careful consideration we are unanimous (with the exception of one of our members, who signs a separate report) in recommending that the stable relation to be established between the rupee and gold should be at the rate of ten rupees to one sovereign, or in other words, at the rate of one rupee to 11·30016 grains of fine gold both for foreign exchange and for internal circulation. While some of our number would have preferred that the rate to be adopted should be nearer to that which has been in course for the last 20 years, we all recognise that no lower rate will attain the objects which we find to be indispensable."

* In a single week the tenders for Reverse Councils exceed £150 million, more than 6 years' Home charges, more than 3 years' heaviest balance of trade in favour of India.

16*d*. exchange rate was, in 1920 and after, not the same as the 16*d*. gold rate. It was not till October, 1924, that the 16*d*. gold ratio was attained, though even then the sterling equivalent was close upon 18*d*.* The steady appreciation of the British currency, and the restoration of a sort of gold standard in Great Britain from April 1925, by a continued process of deflation even at the risk of a disproportionate fall in prices and the consequent growth of unemployment,† made the new rate equal to the 18*d*. gold rate ; and at this higher exchange, the Government of Lord Reading, advised by Sir Basil Blackett, sought to stabilise the rupee. Before doing so, however, they obtained the authoritative advice of a fresh Royal Commission on Indian Currency and Finance,—the fifth in less than 35 years,—which practically endorsed the *fait accompli*, and recommended a permanently enhanced exchange rate of 18*d*. gold, as shown in the summary of the Commission's recommendations given below. With a view, however, to a better appreciation of the recommendations summarised below, let us note the other principal landmarks in the currency history of the last five or six years. In 1921, all war-time restrictions on the movement of specie were abolished, including the import duty on silver bullion imposed since 1910. The new value sought to be given to the gold sovereign was, of course, ineffectual, and the new ratio therefore remained a dead letter. The price of silver, which had risen to as much as 89*d*. the ounce, fell like a rocket to its more accustomed proportions ; but the Government of India, wiser by the experience of the price movement of silver, concentrated their attention on making the note-issue more elastic. Under the old law the invested portion of the paper currency reserve was a definitely fixed quantity, which could not be raised, except by another law or ordinance having the force of a law. During the war the limit was constantly increased, but the absence of the principle of proportionate reserve made the change very cumbrous, and often too late to be of any service to the money-market. An Act was, therefore, passed in 1921, by which the metallic portion of the reserve was fixed at 50% of the total notes issued ; and of the invested portion, only 20 crores could be in rupee securities of the Government of India, the remainder being in British securities of not more than twelve months' duration. The

* The Hilton-Young Commission of 1925–26 has thus summarised the exchange history of 1920–26 :—

"The publication of the Report, (Babington-Smith Committee) in February 1920, coincided with a keen demand for remittances to London, and steps were at once taken to maintain the new exchange rate of 2*s*. gold recommended by the Committee by the offer of the Reverse Councils at a rate founded on that ratio, allowance being made for the depreciation of sterling in terms of gold, as shown by the dollar-sterling exchange. The rates for Reverse Councils offered by the Government thus varied from 3*s*. 29/32*d*. (sterling) to 2*s*. 10 27/32*d*. (sterling). By the Indian Coinage Amendment Act of 1920 the sovereign was made legal tender at Rs. 10. The attempt to hold the ratio at 2*s*. gold was not successful ; and the Government thereupon tried, with effect from the weekly sale on the 24th June, 1920, to maintain it at 2*s*. sterling. This attempt also failed and was abandoned on the 28th September...........This was sufficient to arrest the falling tide of exchange, which early in 1921 fell below the low level of 1*s*. 3*d*. sterling and 1*s*. gold........By January 1923 the tide had definitely turned, and exchange recovered to 1*s*. 4*d*. sterling, and showed a general tendency to move upward. It reached the level of 1*s*. 6*d*. sterling in October 1924, at which time it was equivalent to about 1*s*. 4*d*. gold." (Para 8 of the Report.)

† See *The Economic Consequences of Mr. Churchill*, by J. M. Keynes.

invested portion of the paper currency reserve was revalued at the new rate, and an undertaking given that the profits therefrom, as also the interest on the Gold Standard Reserve securities, would be devoted to wiping off the losses on the Reverse Councils sales of 1920. Power was also taken to issue 5 crores of emergency currency in the busy season, a figure since raised to 12 crores, against commercial bills endorsed by the Imperial Bank of India.* The last named institution also, is a post-war creation, being fashioned out of the 3 old Presidency Banks. Though a private corporation in so far as the ownership of its capital is concerned, the Imperial Bank of India is for all practical purposes a state bank, having the full control of all public banking business, except the management of the currency note-issue and the transaction of the Foreign Exchange business, restrictions which have in no way commended themselves entirely to the Indian public.† The Government of India now purchase sterling in India to meet their Home charges, instead of the Secretary of State selling Council Bills for the purpose. The former transact this business when conditions are favourable, and keep themselves free from the old entanglement of seeking, by this means, to finance the foreign trade of India.

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* Total notes in circulation on 31st December 1926 Rs. 1,81,18,39,761.

Reserve :—			
	Rs.		Rs.
In India—		Securities	49,76,58,946
Silver coin	95,32,18,823	Do. in England...	5,57,25,851
Gold coin and Bullion ...	22,31,95,951		
Silver Bullion under coinage...	8,20,40,190	Total ...	1,81,18,39,761

† Statement of the affairs of the Imperial Bank of India, as on the 24th December 1926

Liabilities		*Assets*	
		Government Securities ...	16,88 66 000
Subscribed Capital	11,25 00 000	Other authorized securities under the Act	1,93 43 000
Capital Paid up	5,62 50 000	Loans	13,74 19 000
Reserve	4,92 50 000	Cash Credits	22,63 51 000
Public Deposits	5,32 69 000	Inland bills discounted and purchased	5,88 91 000
Other Deposits	71,29 35 000	Foreign bills discounted and purchased	30 44 000
Loans against securities per contra	—	Bullion	—
Loans from the Government of India under Section 20 of the Paper Currency Act, against Inland bills discounted and purchased per contra	—	Dead Stock	2,78 44 000
Contingent Liabilities ...	—	Liability of constituents for contingent liabilities per contra	—
Sundries	1,59 25 000	Sundries	86 61 000
		Balances with other Banks...	5 86 000
			65,10 05 000
		Cash	23,66 24 000
Rupees ...	88,76 29 000	Rupees ...	88,76 29 000

The above balance sheet includes—

	£
Deposits in London	855,600
Advances in London	906,200
Cash and balances at other Banks in London	31,700

Percentage 30·25.
Bank Rate 4% to 31st December 1926.
Raised to 5% from 1st January 1927.

N. H. Y. WARREN,
N. M. MURRAY,
Managing Governors.

V.—Summary of Recommendations

The ordinary medium of circulation should remain the currency note and the silver rupee, and the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold, but gold should not circulate as money (paragraph 54).

The necessity of unity of policy in the control of currency and credit for the achievement of monetary stability involves the establishment of a central banking system (paragraphs 83-85).

The Central Banking functions should be entrusted to a new organisation, referred to as the Reserve Bank (paragraphs 89 & 90).

Detailed recommendations are made as to the constitution (paragraph 91-102) and functions and capacities of the Bank (paragraphs 139-164).

The outlines of a proposed charter are recommended to give effect to the recommendations which concern the Reserve Bank (paragraphs 139-164).

Subject to the payment of limited dividends and the building up of suitable reserve funds, the balance of the profits of the Reserve Bank should be paid over to the Government (paragraphs 99 & 100).

The Bank should be given the sole right of note issue for a period of (say) 25 years. Not later than five years from the date of charter becoming operative, Government notes should cease to be legal tender except at Government Treasuries (paragraph 141).

The notes of the Bank should be full legal tender, and should be guaranteed by Government. The form and material of the note should be subject to the approval of the Governor-General-in-Council. A suggestion is made as to the form of the note (paragraphs 138, 149, 155).

An obligation should be imposed by statute on the Bank to buy and sell gold without limits at rates determined with reference to a fixed gold parity of rupee but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold is required (paragraphs 59-61, 150 & 151).

The conditions which are to govern the sale of gold by the Bank should also be so framed as to free it in normal circumstances from the task of supplying gold for non-monetary purposes. The method by which this may be secured is suggested (paragraphs 64; 150).

The legal tender quality of the sovereign and the half sovereign should be removed (paragraphs 65 & 66).

Government should offer "on tap" savings certificates redeemable in 3 or 5 years in legal tender money or gold at the option of the holder (paragraphs 67 & 68).

The paper currency should cease to be convertible by law into silver coin. It should, however, be the duty of the Bank to maintain the free interchangeability of the different forms of legal tender currency, and of the Government to supply coins to the Bank on demand (paragraphs 69-71 & 152).

One-rupee notes should be re-introduced and should be full legal tender (paragraph 72).

Notes other than the one-rupee note should be legally convertible into legal tender money, *i.e.*, into notes of smaller denominations or silver rupees at the option of the currency authority (paragraph 73).

No change should be made in the legal tender character of the silver rupee (paragraph 74).

The Paper Currency and Gold Standard Reserves should be amalgamated, and the proportions and compositions of the combined reserve should be fixed by a statute (paragraphs 75–77).

The proportional reserve system should be adopted. Gold and gold securities should form not less than 40 per cent. of the Reserve, subject to a possible temporary reduction, with the consent of Government on payment of a tax. The currency authority should strive to work to a reserve ratio of 50 to 60 per cent. The gold holding should be raised to 20 per cent. of the Reserve as soon as possible and to 25 per cent. within 10 years. During this period no favourable opportunity of fortifying the gold holding in the Reserve should be allowed to escape. Of the gold holding at least one-half should be held in India (paragraphs 78, 79, 131–132 & 153).

The silver holding in the Reserve should be very substantially reduced during transitional period of 10 years (paragraphs 80, 133, 136 & 145).

The balance of the reserve should be held in self-liquidating Trade Bills and Government of India securities. The "Created" securities should be replaced by marketable securities within 10 years (paragraphs 81, 116, 136 & 145).

A figure of Rs. 50 crores has been fixed as the liability in respect of the contractibility of the rupee circulation. Recommendations are made to secure that an amount equal to one-fifth of the face value of an increase or decrease in the number of silver rupees in issue shall be added to or subtracted from this liability, and the balance of profit or loss shall accrue to or be borne by the Government revenues (paragraphs 82, 120–123, 146–148).

The issue department of the Reserve Bank should be kept wholly distinct from its Banking department (paragraphs 137 & 143).

The Reserve Bank should be entrusted with all the remittance operations of the Government. The Secretary of State should furnish in advance periodical information as to his requirements. The Bank should be left free, at its discretion, to employ such method or methods of remittance as it may find conducive to smooth working (paragraphs 103–109, 111 & 140).

During the transition period the Government should publish a weekly return of remittances made. A trial should be made of the system of purchase by public tender in India (paragraph 110).

The cash balances of the Government (including any balances of the Government of India and of the Secretary of State outside India), as well as the Banking Reserves in India of all banking operating in India, should be centralised in the hands of the Reserve Bank. Section 23 of the Government of India Act should be amended accordingly (paragraphs 111, 112, 140, 161 & 162).

The transfer of Reserve assets should take place not later than 1st January 1929, and the Bank's obligation to buy and sell gold should come into operation not later than 1st January 1931 (paragraph 165).

During the transition period the Currency Authority (*i.e.*, the Government until the transfer of Reserve assets and the Bank thereafter) should be under an obligation to buy gold and to sell gold or gold exchange at its option at the gold points of the exchange. This obligation should be embodied in statutory form, of which the outline is suggested (paragraph 166).

Stabilisation of the rupee should be effected forthwith at a rate corresponding to an exchange rate of 1*s*. 6*d*. (paragraph 168–213).

The stamp duty on the Bills of exchange and cheques should be abolished. Bill forms, in the English language and the vernacular in parallel, should be on sale at post offices (paragraphs 116, 216).

Measures should be taken to promote the development of banking in India (paragraph 214.)

Every effort should be made to remedy the deficiencies in the existing body of statistical data (paragraph 217).

VI.—Critique of the Commission's Recommendations*

The Hilton-Young Commission had three alternative solutions to choose from :—the resuscitation of the pure Silver Standard: the improvement and modification of the Gold or of the Sterling Exchange Standard; and the institution of the orthodox, automatic, familiar Gold Standard, with a Gold Mint and a Gold Currency. The Commission, however, accepted none of these; the first, because it was impracticable in the face of the gold commitments of a Government whose revenues were all derived in silver; the second and the third because "the automatic working of the Exchange Standard is thus not adequately provided for in India, and never has been" (para 16), they being also conscious that "there must ever be danger of such disaster under a system which does not automatically enforce contraction of internal currency concurrently with the depletion of reserves." Indian public opinion had long before condemned the Exchange Standard on the ground of principle, *viz.* the undesirability of a constant manipulation, and it is refreshing to find the high authority of the Hilton-Young Commission condemning for ever this intolerable nuisance.

Their elaborate reasoning, however, rejecting the official scheme for a working gold standard in India, leaves much to be desired in fulness as well as clearness and convincingness. The arguments against the Currency Department's schemes are summarised by the Commission in para 35 of their report as follows:—

(*i*) The effect of the absorption of about £103,000,000 of gold (in addition to normal absorption for the arts, hoards, etc.) on the supplies of credit, the rates of interest and the gold prices throughout the world;

(*ii*) the reliability of the estimates as to the amount of gold to be acquired and the time at which it would be required, and the effect of any miscalculation under these heads on the Indian monetary situation;

(*iii*) the effect of the scheme on the silver market of the world, and the amount which would be realised for the surplus silver;

(*iv*) the effect of the proposals as to silver on the favourite store of value of the masses of the Indian population;

(*v*) the effect on India of the probable reaction of these proposals on other silver using countries and especially on China; and

(*vi*) the possibility of British and American co-operation in the matter of raising credits for the carrying through of the plan.

None of the reasons satisfies the Indian critic. The departmental scheme being the nearest approach to the demands of the Indian opinion, let us examine at some length the objections to it. Regarding the figure of £103,000,000 worth of gold as being necessary to give effect to the scheme, we may point out that the Commission, while fully entitled to question this estimate of the Indian Currency authorities, were bound, in mere fairness,

* The following is taken largely from an article entitled "The Indian Currency Problem" contributed by the present writer to the Indian Daily Mail Annual of 1926.

to give something more solid than vague counter-assertions of their own for alternative and much higher estimates. Assuming this figure, the issue may well be joined if the disastrous consequences envisaged by the Commission will really follow; and whether, if any of these do occur, they will necessarily be injurious to India. The £103,000,000 gold, estimated as required for giving effect to the orthodox gold standard in India, will, under the scheme submitted to the Commission, be acquired in the course of ten years. Would that necessarily spell disaster to India? The Commission hold:—

> "There can be no doubt that a large extra demand from India would cause increased competition for gold among the countries of the world, and lead to a substantial fall in gold prices, and a substantial curtailment of credit. In their reaction on India as one unit in the world's trade system fall in gold prices and a curtailment of credit would on balance be unfavourable."

But will the demand for gold from India be so considerable as to bring about a fall in prices in dimensions apprehended by the Commission? And, if the fall does take place, will it necessarily be prejudicial to Indian interests? To reply to these questions, consider the following statistics culled from the recent series of articles on the *Gold Standard in Theory and in Practice* appearing in the London *Statist* from the commencement of 1926. The total stock of gold in the world produced since 1600 A.D. is estimated at some £3,944,000,000, or, in terms of the Indian currency, at the old rate of exchange, and stated in round terms, Rs. 6,000 crores. The annual average production of gold in the world to-day is £80,000,000, and the tendency, according to the *Statist*, is downwards, unless some new source is discovered very shortly. The general price level is conditioned not by the gold in circulation alone,—and not the whole of the quantity mentioned is in circulation or in the form of money,—but by the total metallic as well as representative money in circulation, as determined by the velocity of circulation of each form of money. Exact estimates in this connection are not available; but judging from the common features of the more advanced commercial nations of the world, it is not too much to say that actual gold cannot be forming more than one-tenth of the world's daily money material. According to the authority already mentioned, gold stocks in the world's principal Banks, and serving as backing for the paper money issued thereon aggregated, on the 31st December last, to some £2,021,000,000, on which the paper money of more than four times that quantity was issued; and all that in addition to the mercantile paper doing duty as current coin for the more considerable transactions of the business world. Now, in an aggregate stock, consisting only of Gold and Currency notes backed by gold, of say £10,000,000,000, what would be the effect of the annual addition of gold of some £80,000,000? Not even one per cent., if the new stream is properly laid out, and if the new production of the world keeps pace. India, next, demands her share, which, at the very maximum,—*i.e.*, according to

the figures of the last three most prosperous years, would have been, on the balance of trade:—

(In crores of rupees)

Years.	Balance of trade in India.	Import of gold in India.	Import of silver in India.	Total import of metals.
1923-24	144'38	29'18	18'39	47'57
1924-25	155'01	73'03	20'06	93'99
1925-26	161'24	34'85	17'15	52'00

Let it be noted, in passing, that if India demands gold,—the only international and commonly accepted medium of exchange,—from her trade debtors, she asks for no more than what is her due. The onus rests on those who would keep India out of her fairly earned share of the world's gold supply to show why she should not claim the full quantity she is rightly entitled to. As the above figures show, however, India is barely allowed to take, in gold, a quarter, or a third at most, of her balance of indebtedness; for if you carry these figures sufficiently backwards,—say to the commencement in 1898-99 of the fixed rupee regime—it will be found that India's net balance of the exports of merchandise was Rs. 1881'94 crores between 1898-99 and 1925-26, against which she received Rs. 456'83 crores net in gold, or less than 25 per cent. Adding the total net silver import in that period of Rs. 208'50 crores, we get a total net import of precious metals of some 665'33 crores, or about 35 per cent. of our balance of exports. If India's claim were satisfied fully, she would not be able to absorb annually more than some 80 crores, according to the present high watermark of her export prosperity; that is to say after allowing for the gold obligations of the Government of India. Eighty crores, or £50,000,000 a year at the very highest, would not be able to ruffle the general price level at all considerably; and so the bogey conjured up by the Hilton-Young Commission seems to be utterly unsubstantial, since the consequential horrors of the curtailment of credit and fall of interest must all topple down like a veritable house of cards.

Let us examine in fuller detail how the actual process mentioned by them works. The price level is affected by the quantity of money in actual circulation, not that which is in the bowels of the earth, or the vaults of the banks, or the hoards of the people. Not all the additional supply of gold goes into monetary circulation, in this country or outside. So far, therefore, as this argument of the price-level and gold is concerned, it seems utterly unlikely that the proportionately small quantity demanded by India would, if obtained, bring about such catastrophic consequences as the Commission would frighten their readers with. In India, as outside, every thoughtful currency reformer has realised that no satisfactory solution can be obtained, no smooth working guaranteed, unless the banking organisation and mechanism of the country is brought into tune with the currency organisation. If banking machinery is developed in India to such an extent that the addition of

eighty crores of gold every year would not dislocate the price-level, none of the havoc apprehended by the Commission will occur. The danger to the price-level, to the volume of credit and the smoothness in world trade, is wholly based on false premises. It is assumed, for example, that the fall in prices will necessarily be bad. A new gospel is being preached nowadays, by which the stability of prices is placed on a much higher pedestal than the stability of exchanges. But have the high priests of the new creed considered whether absolute stability of prices is either attainable or desirable ? Life would be flat and insipid, and progress impossible, if an absolute stability of prices were ruled out ready for us by the banker's ledger-keeper. A little variation, not without the means of easy control when required, would be as healthy as it would be inevitable. The demand of India for free access to the world's gold supplies in fair exchange for her produce will not even amount to a ripple on the surface of the immense ocean of the general price-level. Besides, the present level of prices is admittedly the creation of the extraordinary and unwelcome forces working during the War and after ; and if a fall does take place, it would rather be a reversion to the pre-war state of things, than any reprehensible dislocation of an approved or acceptable state of things. A fall in prices, moreover, is apt to be viewed too exclusively from the producer's stand-point. There is such a thing as the consumer's point of view, which finds no place whatsoever in the cogitations of the Commission. Finally, if prices do really fall as the result of India obtaining her full share of the world's annual supply of gold, they ought to fall only in those regions which are denuded of their gold by India obtaining her supply, and which have consequently to reduce their total volume of currency, as well as credit and capital, in regular sequence. Will there really be any such region ? I think not. But assuming, for the sake of argument, that these regions will mostly be European countries, will they really be the losers ? If prices of their products fall, they ought to find it more than ever easy to obtain markets of which to-day they have a chronic shortage, and from which result their manifold evils of unemployment and general depression. And, by parity of reasoning, India, getting an ever increasing quantity of money material, must soon have a rise in prices, where European manufacturers ought to find more than ever profitable to trade their wares. What, then, remains of all the terrors the Commission has outlined as following in the wake of India obtaining an honest gold standard ?

We are, likewise, not at all impressed with the Commission's special pleading about the danger to the process of reconstruction in Europe, if India were allowed to obtain all the gold she becomes entitled to in exchange for her surplus produce. It is begging the whole question at issue to say that the task of monetary and economic reconstruction in Europe will be impeded, if India is allowed to obtain her dues in gold. Monetary and economic dislocation in Europe is the result of causes with which India has no concern. Until the axe is applied to the very root of these causes, there can be no hope of a permanent salvage of Europe. India, besides, might well retort that,

after all, Europe has made her own bed; let her now lie on it as best she can. If the highly complicated and abstract Bullion Standard, considered by the Commission to be the acme of perfection, has anywhere a legitimate ground for experimentation, it is in the more advanced European countries. If Europe adopts it, there will be no need to fear the gold drain to India, since Europe will have attained to the higher wisdom of looking upon gold as veritable dross, which it would not matter who possessed. For the present, however, Europe, and particularly Britain, is more anxious than India or any other benighted eastern country to possess and hoard gold; for, since the War, the gold reserves of almost all the European Central Banks,—with the Bank of England leading,—have increased, according to the *Statist* already referred to, from £586½ millions to 758½ millions. In any case, if the only solution of India's Currency Problem is an effective, automatic Gold Standard of the orthodox pattern, then it can be no argument to say that India shall not have all the gold due to her, because Europe wants it for herself to buttress her process of monetary reconstruction.

This is the real reason, and the argument drawn from China and America is mere camouflage. India shall be allowed to have no gold standard in the ordinary acceptance of the term, because Europe, and particularly Great Britain, have no thought of relaxing their hold on the gold stocks they have accumulated and are anxiously adding to. As Prof. Brij Narain has already pointed out, the Commission seems to have used some very strange process of selecting only those witnesses from America and elsewhere for special quotation as appear to support their own pet theory. "The United States *is directly interested* in the proposal through its mining industry, both in silver and in base metals." (Para 51). But if *that* is the reason for the American opposition to the Indian demand for an honest and effective gold standard, the Commission ought to have treated it with the contempt it deserves. It is no duty of India's permanently to handicap her industry and commerce in order that the American capital and labour invested in the silver mining industry should not suffer. And if Britain would offer up India as a sacrifice to the insatiate moloch of Wall Street, in grateful recognition of favours received and lively expectation of more to come, the representatives of these British interests in India should not be surprised if the victims resent the intended sacrifice. As for China, the Commission recognise that "China is the greatest, and perhaps the only great, undeveloped market left for the expansion of international trade" (50). But they omit to tell us if this development or expansion is for the benefit of India, or of China, or of some totally different countries. The Indian trade with China, both exports and imports, aggregated, in 1925–26, only Rs. 1,802 lakhs, as against our total foreign trade in the same year of 60,094 lakhs, or more than 30 times as much! Must the currency system of India, which affects her entire commerce,—internal as well as foreign,—and industry, be designed with special and exclusive regard only to that section of her foreign trade which amounts to about 3 per cent., even though such a design should involve unspeakable injury to the whole economic life of the country?

There is one point, however, in the Commission's reasoning against the scheme for a working gold standard put forward by the Indian Currency Department, which needs to be particularly noted, since it adds insult to injury with the utmost refinement of cruelty. The Commission fear the effects of a working gold standard in India on the silver hoards of the Indians. They ought surely to have remembered that the silver stores of valne in India,—such as they may be,—had already been made to suffer when the mints were closed to the free coinage of silver; and an artificial valne given by executive decree to the silver rupee! This Commission themselves recommend a further depreciation of the silver stores by another $12\frac{1}{2}$ per cent., thanks to their recommendation giving a still higher exchange value to the rupee from 16*d*. to 18*d*. We cannot conceive what graver wrong could have been wrought upon the silver hoards (?) of India by the introduction of an honest gold standard in this country, that has not been wrought already by the Commission and its predecessors hitherto.

Let us next turn to the Commission's own constructive suggestion, and see how it would work in practice.

> "The essence of the proposal which we proceed to develop," observe the Commission in para 54 of their Report, "is that the ordinary medium of circulation in India should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first and *need* not circulate ever."

The Commission expect to realise this in the following manner :—

> "We propose that an obligation should be imposed by statute on the currency authority to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee, but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which gold is required." (para 59).

They distinguish this Gold Bullion Standard from the old Exchange Standard, because gold in this would be available for *any* purpose, and not for export only; and yet in the first Bill based on these recommendations, the currency authority was empowered to use discretion to give gold, or gold exchange, in exchange for the local currency. The distinction, again, of the Gold Bullion Standard from the orthodox Gold Standard is brought ont and emphasised, not only by there being no gold circulation in India, bnt also by the positive demonetisation of the British Imperial gold coins which have been all this time legal tender money in India; bnt which henceforward, if the Commission's recommendations are adopted, will be deprived of that attribnte. It may be that the Commission had taken proper legal advice from competent constitutional lawyers as to whether a subordinate legislature, like that of India, could deprive the British Imperial sovereign of its legal tender quality in any part of His Majesty's Empire by virtue of a local Act. But assuming that this feat is within the competence of the Indian legislature,

will the rigorous exclusion of any gold coins in circulation tend to increase public confidence in the currency system? And will the proposal to impose a statutory obligation, in contradistinction to a merely executive assurance to buy and sell gold at stated rates, be sufficient compensation for the suspicion inevitably generated by the absence of gold circulation? A statutory obligation will make no great difference while the Indian legislature is still under official domination, and while the bulk of the country's financial administration is entirely in executive control. The Commission seem to have been unduly impressed with the possibility of gold in circulation coming only at the expense of gold in the Reserves. "The greater the proportion of gold in circulation," they lay down "the less the elasticity of the currency system." (Para 55). This is unexceptionable, but the Commission is utterly mistaken in tacitly assuming that every bit of gold can get into circulation in India only at the expense of gold in the Reserves. This betrays an ignorance of the actual facts of the trade of India, which is worse than a mere solecism in reasoning. And when they go on, in the same paragraph, to observe: "In a system that consists *solely* of gold coins, there can be no elasticity as the currency can only be increased by taking payment in gold for the balance of exports over imports, and it can be decreased by the contrary process only," they part company with facts altogether, and enter the region of romance! For no one wants, no one has ever suggested, that the Indian currency should consist *solely* of gold coins. In fact, the most ardent advocates of a gold standard in India, like the present writer, have invariably and consistently demanded a simultaneous improvement and expansion of banking in India to such an extent that, with the most solid basis for our currency system, India should also have the most economical system in use. The absurdity considered by the Commission in the above quotation will then have not even the ghost of a chance of occurring, and the main fear of the Commission against giving India an effective and automatic gold standard will be obviated.

"For the purposes of India this Standard fulfils the essential condition that it should be not stable only, but simple and certain. It provides token currency with a right of convertibility that is intelligible to the uninstructed, and with a backing that is tangible and visible. In short, it has the characteristics necessary to inspire confidence in the Indian people, to promote habits of banking and investment, and to discourage the habit of hoarding precious metals." (Para 61).

Stability, simplicity, convertibility are, according to the Commission, the three Graces presiding over the destinies of this new babe born in the East. There can be no question as to the stability of a mere abstraction; for the Bullion standard, despite all that is claimed on its behalf, is bound to be a mere abstraction! Its unit of 400 fine ounces of gold would be worth 1066 2/3 tolas of fine gold, or, at Rs. 21 3/4 per tola, Rs. 23,200 in currency value. The Commission may claim what excellences it pleases for its own creation; but such a unit will never ordinarily be even seen by an average Indian. How can it be anything more than an abstraction? The highly complicated calculations it obviously requires, both as to weight and fineness

and the rate in rupees, militates gravely against the claim for simplicity; while as for convertibility, it is enough to point that gold cannot be obtained in conversion of the rupees and notes except in quantities equivalent at a time to 400 fine ounces; and even then, for all we know to the contrary, it may be at the *option* of the currency authority to give gold or gold exchange! Is this convertibility "for all purposes"? Finally, the suggestion of the Commission, in para 73 of their Report, to make the currency notes inconvertible, is bound to undermine and destroy what little confidence there still may be in the currency system or its manipulators. They could not possibly have made a more damaging, a more thoroughly retrograde proposal! All their laboured arrangements to provide in practice free conversion will be of no avail, if the people once realise that the legal obligation to convert is no longer there. The want of public confidence engendered by this treatment of their own promises "to pay the bearer on demand" the sum stated will be accelerated by the relation later on that under this system the public cannot convert their own petty stores of gold ornaments, in times of stringency, without first paying the charges of the professional bullion dealer. For the currency authority is not bound to convert gold into local currency except and unless gold be presented to it in quantities of not less than 400 fine ounces at a time! Is this easy convertibility of all parts of the currency system into the standard? "One might as well make token money redeemable in acres of land, or maunds of wheat, or tons of coal" says Prof. Brij Narayan.

Altogether, then, the Commission's findings and recommendations, both positive and negative, are singularly unsatisfactory. The demonetisation of the sovereign and the inconvertibility of the note-system are amongst the most unfortunate of the recommendations; and the suggestion for a 400 ounce unit is, to say the least, impracticable. The only acceptable suggestion in the Report, the one little improvement over the existing system, is in connection with the issue of the gold certificates.

"They might be issued in denominations of one tola and integral number of tolas, and sold for legal tender money, rupees and notes, at a price which would give the holder an attractive yield in interest. It would add to the attractiveness of the certificates if the holder were given facilities to obtain payment therefor at any rate during their currency at a discount reckoned at varying rates according to the date of encashment, but until the date of maturity it would be paid in legal tender money *and not in gold*." (67).

All the good impression of this suggestion is washed out by this final sting in the tail. For 3 or 5 years, as the case may be, the holder will have no right to demand payment for the certificate in gold should misfortune oblige him to realise his investment. Under this restriction, it may be doubted if this Gold Saving Certificate would be quite as popular as it otherwise deserves to be; nor need it be quite overlooked that, at its best, this is an improvement more of a banking character than a currency reform proper.

The question of the Exchange value of the rupee has deliberately been left to the last, because we wish to point out its true place in correct

perspective when envisaging the entire problem of currency reform in India. At the very most, it is a matter of detail, which ought to be no more than a purely domestic concern, and of interest and importance only during the period of transition while the new system of effective gold standard is crystallizing. The hysterical outcry in favour of this ratio or that comes with very poor grace from those who have accepted all the essential principles of currency reform (!) in India as enunciated by the Hilton-Young Commission. The real and lasting reform of the Indian currency system will not be achieved by merely tinkering with the exchange ratio of the rupee. What we need first of all is the definition and establishment by law of an honest standard of value, free from any chance of tinkering by any body in any interest. In our opinion gold is the only acceptable material for such a standard; and all the advantages of that standard could be obtained by India if free minting of gold is instituted at the same time, and gold currency not excluded even as a possibility from actual circulation. Under that system the rupee will be a mere token, limited in legal tender as it would be restricted in coinage. Its relation to the standard gold unit, whatever that be, will even then have to be determined; and given the history and associations of the rupee amongst the Indian people, the task of that determination will be neither easy nor simple. As the Commission has handled it, however, we cannot compliment that body either on its impartiality in balancing conflicting considerations or its acumen in reasoning. The considerations weighing with the Commission in their recommendation "that the rupee be stabilised in relation to gold at a rate corresponding to an exchange rate of 1s. 6*d.* for the rupee" (para 175) seem to be: that the recommended rate is the existing rate, and that the prices and wages have been adjusted to it; that any dislocation now would mean serious consequences; and that there is also the equilibrium of the Indian Finances to be considered. As for the first of these considerations, it is manifestly unsustainable against the rejoinder that the existing ratio has been in being for only some 18 months or two years at most, whereas the ratio it is to displace was in undisturbed existence for 16 years. The prescriptive right can scarcely be claimed for a ratio which has admittedly been brought into position by very careful and persistent manœuvring spread over a period of three years now. And, even if it be granted for the sake of argument, that the Commission were right in holding that the prices and wages and all kinds of sundry contracts have been adjusted to this ratio, and that its disturbance now would involve considerable dislocation, that argument must face the reply that a similar adjustment will take place if the old ratio is restored; and that the present adjustment, granting it to have taken place, is not abiding, being more or less the result of conscious manipulation, while the adjustment to the old ratio will be an adjustment to more natural or normal conditions. Every reform in the system of currency which is at all radical is bound to cause some dislocation, some hardship and injustice. But that is the penalty we have to pay for our sins in having a faulty currency system, and the sooner we make up our minds to pay that penalty and be done with

an endless source of harm, the better for all concerned. Of course, in the process of paying the penalty, the accumulated experience and ingenuity of our age should not remain so far behindhand as to take no precautions to make the resulting harm, if any, the least it can possibly be reduced to. On this basis, and premising that the real reform of the Indian Currency System must presuppose a change of standard, from silver, pure or managed, to gold simple, honest and automatic, the old ratio of the rupee, *viz.* 16*d.* in gold during the transition, is likely to cause much less harm in the aggregate than the new proposal. The new proposal, besides, contemplates the rupee in spite of its obviously token character, to be an unlimited tender,—in fact the only metallic medium of exchange; whereas if a proper and effective Gold Standard were to be introduced, the 16*d.* rupee would be for internal token purposes, necessarily limited in legal tender. The dislocation would be very small and the harm negligible. The finances of India, it is further contended, need, for their equilibrium, the stimulus of an overvalued rupee; for while with an 18*d.* rupee they would need say 53 crores of rupees to discharge the gold obligations of the Government of India aggregating £40,000,000, with a 16*d.* rupee the same sum would require 60 crores of rupees. This means that at the higher rate the Government of India makes an easy saving of 6 or 7 crores in its Home charges. If there were no means for further retrenchment in the expenditure of the Indian Government, or at the worst, if there were no possibility of adding to the revenues to this extent, this would be an argument worth considering. But we do not accept that the expenditure of the Indian Government admits of no retrenchment, while the Army expenditure alone remains more than 7 crores above the standard as conceived by the Inchcape Committee; while the rates of interest are falling and facilities for the consolidation of the public debt at appreciably lower rates growing all round; and while the reasons for a downward revision in the salaries and allowances of public servants are accumulating beyond all endurance. Even conceding, however, that Indian expenditure has no room for retrenchment, and that at the very worst Indian revenues will show no elasticity, is this plea of savings to the Government from an inflated rupee absolutely unanswerable? What is the cost of this saving to the Government,—which is really no saving to the people,—so far as the nation is concerned? That the Government should have to remit 53 crores instead of 60 crores worth of India's produce to discharge their gold obligations, the Indian people must accept for their produce worth £300,000,000 gold in the world market 400 crores of rupees at 18*d.* exchange, instead of 450 crores, which they would have got, had the rupee been at 16*d.* In other words, for a saving to the Government of 7 crores, the cost to the people would be seven times as much! Verily, it would be far better to have an additional taxation of 7 crores than penalise the Indian producer to the tune of seven times seven crores!

PART IX

Finances of the Indian States

I.—General

The system of financial administration in the Indian States is impossible to study as a single, homogeneous phenomenon, not only because of the immense variety in the size and importance of the six hundred odd Indian States among themselves; not only because of the natural differences among them as to the sources of revenue and channels of expenditure; but also and principally because of the paucity of reliable and official information regarding these vestiges of mediæval and ancient India. The Indian States are anachronisms, which, just because they cannot be made easily to fit into any scheme of political organisation in this country, will demand a special treatment entirely to themselves. The impatient Indian nationalist would make short work of them, somewhat on the model of the French revolutionary dealing with the ancient noblesse of France; but a tradition-loving people, still unwilling, if not unable, to think for themselves, will not be easily brought round to adopt measures of this kind, however harmful such anachronisms may prove to be. The rulers of these states, even when they are above the ordinary run of their class in intelligence and enlightenment, in personal patriotism and national sympathies, are averse to publishing information, which they, like suspected offenders, are still inclined to believe, might be used against them. For an overwhelmingly large majority of cases, there is little or no information available to the ordinary public, probably because the states concerned do not indulge in any such 'outlandish' customs; perhaps also because the traditions of the Foreign Office of the Government of India are against any publicity that might conceivably win sympathy for a progressive ruler in British India, not entirely to the credit of the British rulers of the country. In a few cases, noteworthy because of their exceptional character, regular and well-ordered financial statements are annually published; and in a very few of them, even discussed by the local Legislature. Each state is also supposed to furnish an annual administration report to the supreme government. If we are to have any the least notion of the financial administration in these relics of indigenous government in this country, all we can do is to consider briefly the revenue and expenditure in the principal Indian States, always remembering that these are by no means typical of their tribe.

II.—Financial Position in the Leading States

The subjoined table gives figures of revenue and expenditure for the four leading states in India.

Revenue Receipts of some Indian States

—	Hyderabad Budget Estimates for 1925-26.	Mysore Budget Estimates for 1922-23.	Baroda Accounts for 1924-25.	Bikaner Accounts for 1915-16.
	Rs.	Rs.	Rs.	Rs.
Land Revenue...	2,95,00,000	1,12,49,000	1,18,33,271	11,06,600
Forest Revenue	15,00,000	30,36,000	15,51,293	
Customs	1,25,00,000	......	3,32,820	12,01,791
Excise	1,47,00,000	70,00,000	35,35,960	1,04,856
Opium	11,00,000	......	6,47,053	
Stamps...	19,00,000	16,00,000	12,10,938	75,426
Registration	2,70,000	3,50,000	2,00,622	1,57,636
Salt	......	......	......	30,863
Mines	1,00,000	13,19,000	......	78,244
Berar Rent	29,16,667			
Interest...	42,13,000	9,37,000	12,54,938	47,480
Mint	1,08,000			
Paper Currency	3,48,000			
Exchange	1,00,000			
Post Office	8,50,000			
Irrigation	65,000	5,67,000	37,548	2,969
Railways	23,30,000	9,67,000	18,46,778	23,05,977
Electricity	1,15,350	21,32,000	81,820	
Workshop	35,000			
Printing				
Telephone	*—2,800*			
Industrial Development	......	*—70,000*	....	66,380
Transfers from Famine Insurance ...	1,50,000			
Miscellaneous...	36,01,000	2,68,000	8,05,864	75,692
Income and Miscellaneous Taxes ...	......	11,00,000	7,18,659	
Civil Departments	......	3,82,000	7,11,946	4,29,728
Public Works	......	1,31,000		
Military Receipts	......	72,000		
Tributes and fixed Jamabandi ...	......	......	7,06,384	
Total ...	7,63,99,000	3,10,40,000	2,44,75,894	48,46,676

Expenditure charged to Revenue in some Indian States

—	Hyderabad Budget Estimates 1925–26.	Mysore Budget Estimates 1922–23.	Baroda Accounts for 1924–25.	Bikaner. Accounts for 1915–16.
	Rs.	Rs.	Rs.	Rs.
Direct Demands on Revenue ...	1,22,60,000	48,78,000	25,85,981	2,83,141
Debt Services—				
Interest	19,34,000	35,21,000	24,308	1,859
Redemption	10,00,000	18,78,000		
Mining	......	2,38,000	......	62,666
Mint	2,44,700			
Paper Currency	56 500			
Exchange	70,000			
Post Office	11,83,800			
Civil List	50,00,000	23,50,000	28,05,008	4,92,724
Civil Departments				
General Administration	32,61,600	10,94,000	......	4,17,594
Political	4,08,700			
Pensions	......	10,51,000	3,98,543	44,467
Life Insurance	45,500			
Mansabs	17,57,000			
Military	72,43,000	18,25,000	24,07,715	4,04,114
Subsidy to British Govt.	......	35,00,000		
Courts	20,88,200	9,96,000	4,44,110	60,887
Jails	4,89 200	1,65,000	1,09,371	28,234
Police	61,64,700	16,40,000	14,09,372	1,32,107
Education	67,23,000	40,00,000	30,56,866	60.119
Medical	19,32,400	12,05,000	6,41,996	98,194
Religious	11,62,600			
Scientific Department	......	1,53,000		
Agriculture	2,03,000	6,58,000		
Veterinary	3,74,000			
Co-operative Credit	3,08,000	1,14,000		
Miscellaneous	98,000	10,77,000	7,80,767	1,15,443
Municipalities, &c.	15,08,000	3,31,000	2,48,154	48,048
Buildings and Commission	73,16,000	......	35,20,083	
Railways	2,17,000	......	......	12,75,077
Irrigation	33,37,000	5 57,000		
Civil Works	......	19,22,000	......	6,89,036
Development and Industrial... ...	12,11,000	1,70,000		
Famine and Insurance	16,50,000			
Miscellaneous	4,83,500	......	9,99,701	1,32,755
Reserve...	8,57,000			
Total ...	7,08,88,000	3,33,23,000	1,94,31,175	44,63,931

III.—Outstanding Features Considered Particularly

Three of the States here considered are admittedly the most considerable States in the country, while the fourth is added in the quartette because its ruler's personal pre-eminence gives the State something more than a merely local importance. It is also one of those Rajputana States, where, if anywhere in India, the old order has still not entirely yielded place to new, which accordingly makes this modernised territory peculiarly remarkable for its ancient environment and undying traditions.

The items of revenue and expenditure are, generally speaking, the same as in British India. The smaller Indian State has to pay a tribute, usually to the British Government; but in not a few instances, it is to some other Indian State, like the Gaekwar in regard to the Kathiawad States, or Junagadh. Almost everywhere the tribute is a noteworthy item of expenditure. On the other hand, States like the Nizam have to receive by way of rent from the British Government of certain ceded districts, made over, originally, in many cases, for the support of the British troops supposed to be maintained for the protection of the native ruler. Because the task of protecting the prince and his territory was taken over by the Supreme Government, the former was freed from any obligation to maintain a military force for his own defence. Hence we find the item of military expenditure a steadily dwindling, if not a wholly extinct, charge in many a State budget. Even where a local state army is still maintained, as in Baroda and Mysore, in Hyderabad and in Kashmere, it is rather for ceremonial than for any serious purpose of military defence against the only power in India which could threaten the integrity and existence of a State. Political education in the Indian States will have to reach much greater heights than it has hitherto, before this wholly needless item disappears altogether in such States as still encumber their budget with this charge. But before expressing the hope that the growing popular consciousness of the rights of the citizens in the leading States would result in a complete abolition of this charge, in order to permit the outlay of a like amount on developmental departments, it must be noted that the Central Government of India has already become conscious that the burden of the effective military defence of the country falls inequitably, but entirely, on its own shoulders; and that accordingly, it would be not at all surprising if the Central Government utilises the recently introduced popular institutions for passing over a part at least of these burdens to the Indian States. We have already noted, in the chapter dealing with the expenditure on defence in India, the contribution now made by the Indian States towards this end; but that contribution can scarcely be described to be adequate or proportionate. Of the other items of expenditure, the charges for the public works such as roads, buildings, railways, canals,—both capital and revenue,—are indices of the degree of progress in the several States considered. A good few of them have been obliged or induced to construct railways themselves, or offer facilities for such construction through their territories, irrespective of the real, intrinsic benefit of such

enterprise to the states or their peoples, simply because the states in question happened to be on the through line of communication between two portions of British territory; and the British Government did not care to incur the charges of a needless deflection of a railway line, if they could possibly avoid the charge. On the other hand, in some other states, and at least in more recent times, the impulse to construct railways has come from the States themselves, thanks to the perception of the advantages, or at least to their inability to find any outlet for their produce except through a rail-road running to a port in British India. The item in the expenditure schedule, of almost every Indian State, of interest is thus a prototype of the corresponding item in the British India Budget; though just as in British India, so in the majority of the Indian States the interest is not exclusively in reference to productive debt. Very few States are in the happy position of having their receipts on account of interest exceeding their disbursement on the same head.

Most of the Indian States have agreed to dispense with their separate mint and coinage, and almost all have dispensed with an independent post-office of their own, though the Nizam is an important exception in either case. In this last case, the published statement shows a fair organisation for the management of the separate currency of the State, as also proper investments on that account. The banks of Mysore and Baroda, though bearing the names of their States, and having a certain connection with the governments concerned, are, however, not State banks in the proper sense of the term; and the benefits of their activities naturally go to the shareholders of these banks. The principal revenue resources are thus: land, and excise, and stamps, eked out by such special items as the conditions and traditions of each State allow. Salt revenue is still noticeable as an item in the income schedule of some of the Rajputana States; but in the bulk of the other States, this item is a constant source of heart burning between the British Government, and the States concerned. For the latter cannot help feeling that a part at least of the salt revenue of the British Indian Government is derived from payments made by their own peoples, which, they think, is unfair. The same is also the case, and even more prominently, with the Customs revenue of British India. The States feel they are being mulcted for the benefit of the British Indian treasury, or British Indian industry, in which they have no means of sharing. In so far as the States have an independent customs schedule of their own, their subjects have to pay a double duty, once to the British Government, and afterwards to their own prince,—unless they happen to be among those few maritime States of India where the rulers have been sympathetic and far-sighted enough to maintain or develop adequate port facilities. The British Government are being made aware in a very telling manner how the trade of their people and the revenue of their treasury can be deflected by carefully manipulated Customs Tariff, or rebates, in a maritime Indian State. The case of sugar imported directly into some of the States on the western sea-coast of India, and

thence taken to British territory to be sold in competition with sugar coming through British ports and paying the heavy British duty must ere long force the attention of the Government of India as well as of the legislature to some measure of agreement,—to a sort of an Indian Zollverein, to prevent this kind of smuggling. But if and when any such arrangement comes to be made, the British Indian Government will demand, not without justification, that the States should share in the common central obligations of defence and general development, or contribute their quota for the purpose. It is more than likely that the amount the States would be called upon to pay to the Central Government as their quota towards the cost of our national defence and development will more than counterbalance the refunds the Imperial Government may have to make in regard to the All-India items of revenue, like salt or customs.

The burden of taxation in the Indian States is impossible to estimate even approximately, largely because of the absence of any data for the purpose. But the territories under native rule are comparatively poorer, and the annual wealth produced in these territories must be comparatively much less. For a third of the area, the Indian States barely have a sixth of the total annual wealth produced in India, and their revenues on that basis seem as heavy as, if not heavier than, those in British India; the outlay of the public monies in the States is on objects by no means more intensively and more directly beneficial to the people than that in the British territory. The Civil List of the ruler, wherever it is fixed and systematised, is a dead charge, justified on grounds of tradition and sentiment, but burdensome in reality almost as much as the unprecedentedly heavy scale of higher salaries in British territory. The demands of public education and sanitation, and of the moral and material development of the country generally, are not recognised, even in the most advanced States, to a degree greater than that of British India, though here and there in a single item some particularly advanced State might show a praiseworthy emulation and excellence.

IV.—Conclusion

The foregoing is admittedly a very sketchy and quite unsatisfactory review, though the aggregate income and expenditure of all the States would not be much short of 75 crores per annum. Brief and sketchy as it is, the review would suffice to point out that the financial system of a federated India, assuming the States to be embodied in the federation, as well as the provinces of British India, can be simplified and be made a single systematic, scientific arrangement, in which due regard will be paid to the needs of each component unit, and yet the common ideal of the whole federation not neglected.

Appendix on Local Finance

The subject of local finance proper,—*i.e.* that of the Municipalities and District Boards—is, like that of the Native States, almost wholly a virgin field as yet in India. Nothing has yet been done, speaking from the point of view of the science of public finance, towards a correct understanding of the nature and goal of the local self-governing institutions in India, as also of the place they are expected or intended to fill in the scheme of Indian polity, whether federal or unitary. The paragraphs in the Indian Taxation Enquiry Committee's Report on this subject are spasmodic and disjointed; and they lack some principle taken to be the basis and guiding factor in the whole financial structure of India. For my part, I have tried to meet this need in my work on the *Constitution, Functions and Finance of Indian Municipalities*, published last year in collaboration with Miss. G. J. Bahadurji. It is impossible to give, within the space at my disposal here, even a brief summary of the facts, reasoning and conclusions of that work; but the following transcription of an article by the present writer in the *Calcutta Municipal Gazette* of December 4, 1926, will, perhaps, serve to give an indication to the reader of the main results of that study.

Municipal Finance in India and Abroad: Some Prominent Features

Comparisons are usually considered to be odious; but when they are made impersonally or institutionally, they are likely to be more interesting than offensive. Particularly is such the case when an institution, relatively new in one country, is compared in its life and activity as displayed in another country where it is more firmly established! There is much in the municipal life and activity of Aryan races outside India which cannot but be most highly instructive to Indians in their municipal organisation; and, perhaps, in all that there is no single feature so intensely interesting, as the methods and directions of financing municipal activities followed in European countries. Within the limits of such an article as this, it is impossible to give even a bare mention of all the directions in which municipal finance in European countries shows much that would be useful and interesting to India; and so we have to select one or two special features to give an idea of the immense wealth of instructive comparison possible in such comparative studies.

The total Municipal revenues and expenditure in India, in the latest year for which figures are now available (1924–25) are :—

Revenues of Indian Municipalities

	Rs.
Rates and Taxes—	
Octroi	2,26,30,664
Tax on—	
Houses and Lands	4,21,93,595
Animals and Vehicles ...	38,04,770
Trades and Professions ...	31,85,245
Roads and Ferries	28,37,000
Water rate	1,66,64,540
Lighting rate	14,27,283
Conservancy Rate	96,95,132
Other Taxes	82,24,438
Total Tax Revenue ...	...11,06,64,667
Realisation under Special Acts—	
From Pounds, Hackneys, Licenses for Spirits ...	17,12,095
Other Sources—	
Rent of Land and Houses ...	39,28,349
Sale of Lands and Produce...	23,11,415
Conservancy receipts ...	13,36,340
Markets and Slaughter House Receipts ...	84,15,692
Educational Fees	11,75,848
Other Fees	81,40,401
Government Grants	1,10,50,401
Grants from Local Funds ...	9,94,815
Other Grants Contributions	5,21,165
Miscellaneous...	73,41,902
	4,69,28,031
Extraordinary and Debt Receipts	...30,13,82,849
Total Revenues	...45,99,72,144

Expenditure of Indian Municipalities (1924–25)

	Rs.
Public Safety—	
General Administration ...	1,41,18,588
Lighting	74,63,186
Police	1,00,854
Fire	15,84,568
Total ...	91,57,608
Public Health and Convenience—	
Water Supply	3,71,39,596
Drainage	92,84,265
Conservancy	2,53,99,673
Hospitals and Dispensaries .	70,24,992
Plague charges	5,07,738
Markets and slaughter-houses	51,22,682
Public gardens, &c.	18,44,566
Sanitary	29,49,967
Public Works—	
Roads...	1,58,61,946
Buildings	23,52,723
Establishment	29,66,078
Stores	1,97,050
Miscellaneous	9,10,966
Total	...11,24,62,232
Public Instruction	1,53,30,678
Contribution for general purposes	53,85,449
Miscellaneous—	
Interest on Loans	1,47,15,455
Other Miscellaneous expense	2,24,59,137
Total ...	3,71,74,592
Investments	9,50,17,402
Payments to Sinking Funds ...	58,36,061
Repayments of Loans	49,01,216
Advances	1,87,03,680
Deposits	...13,96,73,676
Total	...26,46,48,811
Grand Total	...45,83,57,920

Leaving aside the extraordinary receipts of debt and deposits and advances from Government, the real revenues of Municipalities in India amount to some 15¾ crores, of which Tax Revenues proper are 11·06 crores, or about 70 per cent. of the total ordinary income; while of the remainder

1'25 crores or 8 per cent. consists of grants from Government and Local Funds. Fees make up another 6 per cent. of the Indian Municipal revenues, so that the income from municipal domain and enterprise does not exceed at the very most 15 per cent. of the total municipal income in India. Contrast this with the following proportions of Municipal income in England and Wales in 1918-19. The total revenues were £199 million, of which £85 million or 43 per cent. came from rates or what we call taxes in India. £34 million or 17 per cent. came from water, gas and electric enterprise. £17 million or 9 per cent. came from Tramways and Light Railways. £29 million or 14 per cent. came from Central Government Grants or subsidies; £4 million or 20 per cent. came from Contribution, Loans, etc ; £30 million or 15 per cent. came from Miscellaneous Sources. Here is a prominence given to sources of revenue other than taxation, which is well worth considering by enthusiasts for municipal autonomy and extension in India. There are items in this list which are common to both countries ; but their actual treatment in the Municipal Budgets of Britain and India, respectively, is so radically different that the mere identity of nomenclature ought not to induce the belief regarding the identity of their nature and incidence. There is one very radical and most noteworthy difference in the nature of the revenue derived from taxation and that derived from such sources as municipal domain and trading enterprise, which, I verily believe, is not even realised by the majority of municipal administrators, let alone ordinary citizens, in this country. This difference consists in the fact that, whereas every tax receipt is a compulsory contribution made by a private citizen towards the maintenance of the State, and therefore, *a deduction from his private wealth*, all income from municipal domain, and still more so, from municipal trading enterprise, is not a deduction but rather an addition to the private wealth, in the form either of the actual monetary saving made by the citizen in the shape of lower charges for municipal supplies of commodities or services, or in the shape of higher benefit derived for the same money value. There are those who question the latter; and it must be conceded that under the imperfect and defective accounting methods we are now accustomed to, it is difficult specifically and unquestionably to prove it. But the example of Germany and many another European country of lesser importance may be cited to support the well-known maxim of municipal finance: that taxation should be resorted to only if and when the income from municipal enterprise does not suffice to meet the ordinary needs of municipal activities, a maxim, which is more systematically denied than observed in this country. "In all German towns and rural communes with a population of 10,000 and over according to a return of the Imperial German Government published in 1908, 33'2 per cent. of the gross revenue were derived from taxation, 25'9 per cent. of the total revenue came from the receipts of trading enterprises, 5'9 per cent. from the administration of communal estates and investments, 5'1 per cent from educational and art institutions, 3 per cent. on account of poor relief, care of orphans and hospitals, 4'7 per cent. were derived from building fees, etc., and the remainder 22'2 per cent. from the general police and other

branches of administration." The cities of the United States are perhaps the nearest to those of India, as regards the nature and composition of their income, since something like 60 per cent. of the total income in the American cities consists of the so-called general and property taxes. But the property taxes of America are radically different from those of India, as in that country real as well as personal property is made assessable for mnnicipal purposes, while in this country so far only the landed property in city limits has to bear the brunt of the cost of mnnicipal administration.

On the expenditure side debt charges, general administration and public instruction are almost equal in importance, being about 8 p.c. each of the total effective expenditure of some 19½ crores; water supply, drainage and conservancy charges aggregate 7'18 crores or nearly 35% of the total expenditure, which does not all go to the benefit of the poorer sections of the civic communities. In India debt charges inclnding sinking funds, acconnt for over 2 crores or 10%, while the rest of the expenditnre needs no particularisation.

Financial reform of Indian municipalities must thus proceed on lines which would progressively rednce the proportion of the tax-revenue to the total revenue of the municipalities, by extending and expanding municipal trading enterprise wherever and whenever possible. There is ample room for such expansion and extension in this country; for with the exception of the Presidency cities, they have not as yet developed those vested interests of private profit-seekers which constitute the greatest obstacle to sound municipal financing in the modern European cities. It is not to be understood from this maxim, however, that the one and only object of extending and expanding municipal trading or industrial enterprise is to seek financial relief to the tax-payer. On the contrary, the only excuse for such an extension is the possibility of rendering services more amply and more cheaply to the citizens than would be likely under a regime of private, profit-making enterprise. If in search of this service, it should ever happen that the financial object proves inconsistent with the aim of service, there can be no question as to which ought to prevail, which ought to be preferred. Bnt while the rendering of service is in no way endangered, the extension of municipal industrial or trading enterprise shonld know no limits and hindrances, not even on acconnt of the limited capital resources of the citizens. The only justification of municipal borrowing is to be found in the possibility of adding to the profit-making ventnres of the city; and where municipal borrowing is conducted on sound, safe lines for objects and purposes like these, there can be no question abont the inability of adding to municipal industry and enterprise for want of capital resonrces.

Next after the extension of mnnicipal, industrial or trading enterprise, the most nrgent reform of municipal finance, on the revenne side, is the reconsideration of the incidence of mnnicipal taxation in this country. Taxation plays a very large part in the total municipal income, though that income is very small, indeed, in all conscience. The land and bnildings tax has already been mentioned as being levied on unscientific lines, especially in

the absence of an equal treatment of real as well as personal property for purposes of local taxation.

The existence of the Octroi duties, or non-refundable terminal taxes on articles of local consumption within city limits, is, also, a great blot on municipal finance in India, which cannot too soon be removed. These duties not only affect injuriously the trade and industry of the taxing city, and thereby hurt its general prosperity and taxable capacity; they fall with uneven and inequitable weight on the poorer classes whose food and drink form the staple for such tax receipts. I do not ignore, indeed, the existence of the central taxation of personal property and income in India, which makes it impossible to-day to consider these as fit subjects of local, or rather municipal, taxation. But that, in my judgment, only makes an argument for the wholesale and radical revision of the entire financial system of India from top to bottom, so as to apportion resources with due consideration of the utilities and services rendered by the taxing authority. "In a properly conceived and satisfactorily organised system of municipal finance, the receipts by way of fees from the administrative and regulative departments will be, generally speaking, equal to the charges of those departments; and the income from the trading ventures will be used, first to pay off the debt charge for financing such ventures; next to improve the service rendered, and in this may be comprised the interests of consumer of the particular service as well as those of the labour engaged in the production of those utilities; and finally, the balance must be devoted to the expenses of the non-earning departments, which are, however, of prime importance for the physical and intellectual, the moral and spiritual life of the city." (*Constitution, Functions and Finance of Indian Municipalities, p. 437.*)

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Some Press Opinions (Extracts).

Sixty Years of Indian Finance 1st Edn. by K. T. Shah B.A., B.Sc. (Econ.)

[From the *Economic Journal*, September 1922.]
BY SIR J. M. DOUIE, K.C.S.I.

Mr. K. T. Shah has written a very useful book reviewing in a lucid manner the growth of the Revenue and Expenditure of the Indian Government from 1860, when its first Financial Minister introduced its first Budget, to 1920. To expect an Indian economist with pronounced nationalist views to discuss the questions with which the book deals with complete freedom from bias would at the present time be futile. But the author is too well instructed to definitely associate himself with the wild charges against British rule and financial policy which disfigure some books widely read and often quoted by educated Indians. He gives *pros* and *cons* with great fairness, and in fact it is sometimes a little difficult to be certain what his own final opinion is. Thus, as regards protection, the economic objections are stated with force and clearness, and he asserts that protective duties can in any case be justified only as a temporary expedient. He is quite aware that a country which has once adopted Protection as a plank in its fiscal policy has usually found its removal "impossible......owing to the growth of vested interests."

The author's account of the Land Revenue, Excise, and Income Tax policies is sober, and generally speaking well-informed, and his comments on the salt tax and famine expenditure are fair. He realises that, while mistakes may have been made, the Railway and Canal policy has been broadly justified by the fact that transport and irrigation now bring in a handsome profit to the State. The Post Office Policy is deservedly commended. Regarding Excise he says "It would be futile to charge the British administration as having increased the drink traffic." And again :—

> "Given the influence of revenue in shaping the excise policy of the country, we must admit that, within the limits thus set, the efforts of the Government have been directed to the reduction of the use of the intoxicating drinks."

He entirely approves of the measures taken to make direct taxation a much more important element in Indian taxation, and especially of the larger differentiation between big and little incomes.

He regards the "Drain" due to Home Charges as the worst blot on Indian finance, and maintains that the only part of it which is justifiable is the interest on loans raised in London for productive expenditure. He proposes to abolish the other charges by raising any other loan in India and by doing away with the English element in the Military and Civil services within a given period."

Mr. Shah's view of the functions of the modern State is that of a convinced Socialist. In his opinion the ultimate aim of Direct Taxation is to effect "a redistribution of wealth" and "the only way to bring about the fullest development of each country's resources without injuring the interests of consumers......is for the state to take upon itself the task of production or at least its regulation." He even suggests the nationalisation of the legal profession, advocates becoming public servants. He recognises that the Reforms have so far been costly, but hopes for a national Government not afraid to raise taxation with a view to the initiation of a large programme of Social reform.

The Times of India

(Wednesday, 21st June 1922.)

This book was published before Sir Malcolm Hailey introduced his depressing budget for 1921–22: none the less, in view of the decision of the Government of India to have a Retrenchment Committee, its publication is very opportune. The book, in fact, although the author was not aware of the intentions of the Government of India, might almost be looked upon as a piece of evidence to be placed before that Committee. It is divided into no less than seven parts, in which are covered all financial operations of the Government of India from the time the Crown took over charge from the Company and, in some cases, from an earlier date. After a preliminary and descriptive account of the principal sources of revenue and expenditure and of the financial organization of the Government of India, the author proceeds to discuss the public expenditure of India item by item. Each item is presented in a historical setting, to which the author appends a few critical reflections of a type, connected with a distinct school of Indian political thought. He concludes by a chapter on the vexed question of currency and exchange, to which his solution is the introduction of a full, free, honest gold standard and gold currency and the placing of it, by the Legislative sanction, "beyond the tinkering of all amateur financiers". In the course of his book, the author gives many suggestions which, although not new, are worthy of consideration. Many will agree with him, for example, that were it not for the complications that would ensue the beginning of the financial year might with advantage be changed from the 1st of April to the 1st of October.

The Bombay Chronicle

In his book "Sixty Years of Indian Finance", (Bombay Chronicle Press, Rs. 10) Mr. K. T. Shah has related the story of the financial mis-management of the Government in this country in a manner that will appeal to and convince all classes of readers. He does not content himself with giving mere facts and figures relating to the administration of the finances of India during the past sixty years, in its different branches. Facts and figures are indeed of inestimable value to the student as material for his work. Mr. Shah's theoretical exposition, preceding the discussion of each aspect of the country's financial history, is extremely helpful inasmuch as it creates the necessary back-ground for the criticism that follows and supplies the means to test the soundness both of the policy dealt with and the criticism itself. The account which the author gives of the management of finances, is of course, chronological and it facilitates a clear understanding of the evolution of the system from stage to stage. But what is of greater importance is his analysis and searching examination of items of expenditure and revenue and of the systems of currency and public debt. Mr. Shah has spared no pains to dive deep into the mass of material that exists relating to the subject of his book and the quotations and references he has given show how arduous his labour has been. As we have remarked above, he is not, however, merely a chronicler, but a critic who makes out a case against what he disapproves, with infinite care and trouble. Take military expenditure as an illustration. Mr. Shah starts with a suggestive statement of the general principles of expenditure on national defence, then deals with the economics of military finance, follows it with a brief history of Indian military expenditure and closes with a section full of criticism and suggestions. This is a method of treatment which is highly conducive to a clear understanding and is a commendable feature of the book. It shows a scholarly and methodical bent of mind and the habit of weighing evidence before pronouncing a judgment.

Calcutta Review, February 1922

The Sixty Years of Indian Finance recently published by Mr. K. T. Shah is an effort in the right direction. It is a systematic study on the most up-to-date scientific lines of the finances of this country, as much from the administrative side as from a theoretical standpoint with practical applications. In a general survey of the book one necessarily feels

the absence of a fuller, clearer description of the administrative organisation, which is possibly explained by the author's want of familiarity with administrative routine. Perhaps, also, the scope of the book would have been unduly enlarged, and its utility very considerably marred, if the author had endeavoured to summarise the many bulky volumes containing the rules and regulations of the Accountant General's Office for the accounting and auditing of the Government accounts under the various Civil and Military departments of the Government of India. For a complete picture of the finances of India, the carping critic might also notice the absence of any treatment of the finances of the Native States. But this absence the author has also noted; and we hope in a subsequent work or new edition he will find time and material to incorporate a similar study of the Native States Finances in this exceedingly useful volume.

Among the merits of Mr. Shah's work mention must be made in the first place of the constructive suggestions in which the work abounds in almost every chapter. It is also this ideal which, strange as it may seem, suggests to the author the expedient of a compulsory military service in India, not only because it is the least expensive relatively speaking; but because it would, by equalising burdens, create the greatest possible incentive for the maintenance of the peace. We wonder if this would not be a double-edged sword.

The Journal of the Bombay Economic Society

The most important and the most urgent problems awaiting solution in the India of to-day are problems of finance, both in the Central and Provincial Governments. The appearance of Professor Shah's book is, therefore, very opportune as he gives a historical and critical review of the course of Indian Finance during the last sixty years Prof. Shah is to be congratulated on the comprehensiveness of his treatise. Talking about the comprehensiveness of the book, the only criticism one would like to make is that though room is found in it for dealing even with such minor topics as ecclesiastical expenditure or mint charges, an important branch of Indian Finance, viz., municipal and local finance, is left out altogether.

The backbone of the book is the figures, regarding each head of revenue or expenditure, during the last sixty years. Mostly these figures are taken from official blue-books and reports; but in certain cases, e.g , land revenue and expenditure in that connection, in order to give a correct picture of the true situation, Prof. Shah has taken an amount of trouble in assembling the figures from various official accounts aud putting them together in the manner he wants.

With regard to the author's criticism of the policy, as disclosed by the figures, relating to the various topics dealt with in the book, so much would have to be said under each subject that this review would become intolerably long, even if only the important subjects and Prof. Shah's opinions and arguments about them were dealt with. Prof. Shah, however, shows originality and acuteness of intellect and his mode of discussion is vigorous and thought-provoking. One only wishes at various points in the book that the author had preserved a more tranquil attitude of mind and avoided making parts of his book look more like passages in any ephemeral, political] pamphlet than portions of a serious discussion having a permanent value. Of course, the occasional heat only shows Prof. Shah's earnestness of purpose and conviction.

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